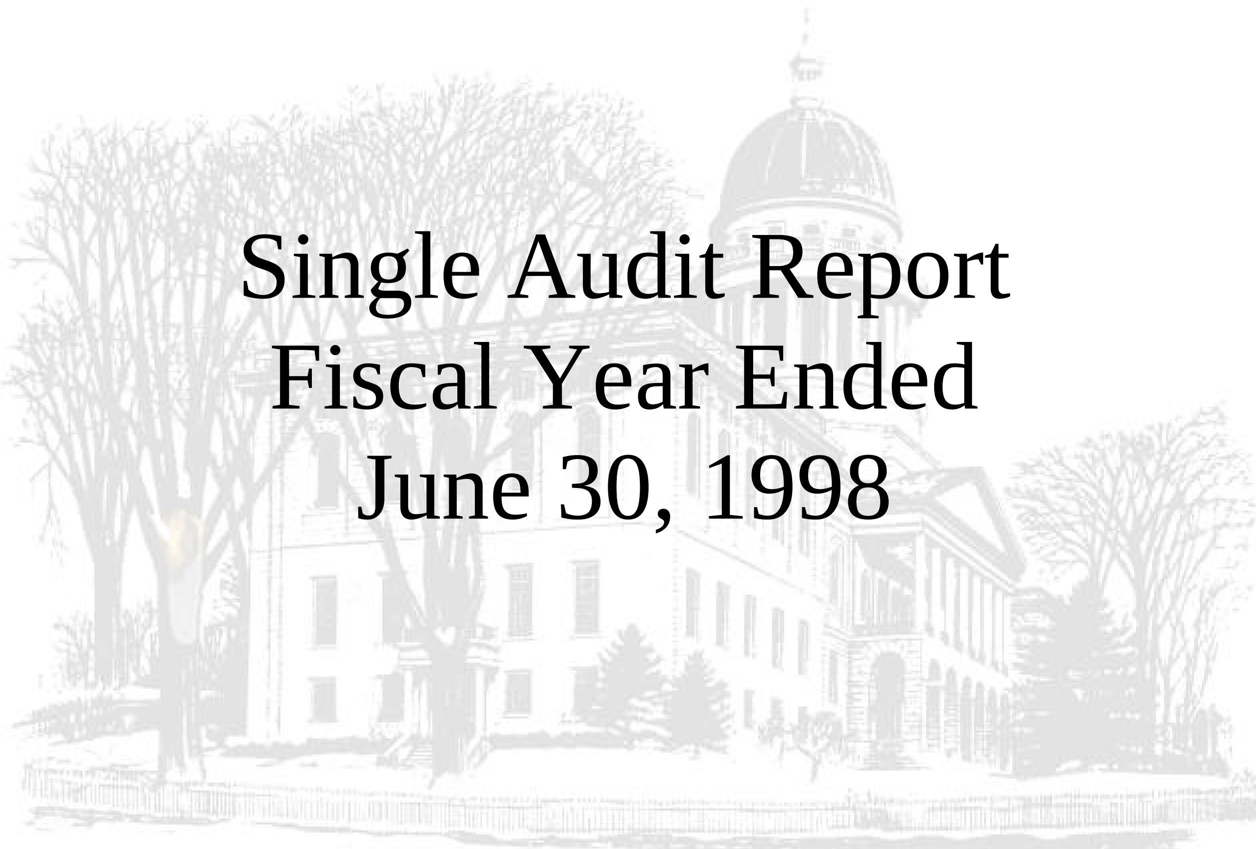
9-17-1999

Single Audit Report Fiscal Year Ended June 30, 1998

Maine Office of the State Auditor

State of Maine



Single Audit Report
Fiscal Year Ended
June 30, 1998

Prepared by
State Department of Audit
Gail M. Chase, CIA, State Auditor

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STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 1998

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STATEOF MAINE
DEPARTMENT OF AUDIT
66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

TEL: (207) 624-6250
FAX: (207) 624-6273

GAIL M. CHASE, CIA
STATE AUDITOR

RICHARD H. FOOTE, CPA
DEPUTY STATE AUDITOR
CAROL A. LEHTO CPA, CIA
DIRECTOR OF AUDITS
MICHAEL J. POULIN, CIA
DIRECTOR OF AUDITS

Letter of Transmittal

Senator Mark Lawrence
President of the Senate

Representative G. Steven Rowe
Speaker of the House of Representatives

The Honorable Angus S. King, Jr.
Governor of Maine

Mr. John Fisher, Manager
National External Audit Review Center
U.S. Department of Health and Human Services

We are pleased to submit the Single Audit of the State of Maine for the fiscal year ended June 30, 1998. This report complies with the State's audit requirements, including those placed upon the State as a condition for the receipt of $1.5 billion in federal funds. This audit has been performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. It satisfies the requirements of Title 31, Chapter 75, United States Code, otherwise known as the Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996, and the related Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations,* issued by the Office of Management and Budget.

This document contains the following reports and schedules:

- Independent Auditor's Report

- Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

- Report on Compliance With Requirements Applicable To Each Major Program, Internal Control over Compliance and on the Schedule of Expenditures of Federal Awards in Accordance With OMB Circular A-133

- Schedule of Expenditures of Federal Awards

- Schedule of Findings and Questioned Costs

- Corrective Action Plan

- Summary Schedule of Prior Audit Findings

On behalf of the Department of Audit, I would like to express my gratitude to employees throughout State government who have assisted us during the conduct of our audit and in the issuance of this report. We continue our mutual effort to improve financial reporting and accountability to the citizens of our State.

We would be pleased to respond to any questions or comments about the 1998 Single Audit of the State of Maine.

Respectfully submitted,

Gail M. Chase, CIA
State Auditor

September 17, 1999

EXECUTIVE SUMMARY

Introduction:

The *Single Audit of the State of Maine* is a financial and compliance audit that fulfills State and Federal requirements. The audit is of the general-purpose financial statements of the State of Maine. These statements include all funds, organizations, institutions, agencies, departments and offices of the State, as well as eleven entities that meet the criteria for component units due to the significance of their operational or financial relationships with the State. To satisfy the needs of report users, and to be in compliance with federal regulation, the *Single Audit* is presented in three individual reports: the *Independent Auditor's Report*; the *Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*; and the *Report on Compliance with Requirements Applicable to Each Major Program, Internal Control over Compliance and on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133.* There is also a separately issued management letter.

Results:

Our audit resulted in a qualified audit opinion. Controls over accounting and financial management systems are not adequate to report some amounts or to support certain others. For certain federal programs, controls are insufficient to ensure compliance with program rules and regulations. We found no instances of fraud, illegal acts or other irregularities. There were instances of noncompliance with laws, rules or regulations. We believe that none is material to either the financial statements or to a major federal program.

Opinion:

Our opinion on the financial statements of the State of Maine was qualified because of the following departures from generally accepted accounting principles:

- Inadequate systems to report capital leases
- Omission of General Fixed Assets Account Group
- Omission of component unit
- Inadequate disclosure of pension information

In our opinion, amounts reported on the Schedule of Expenditures of Federal Awards were fairly stated.

Financial Statement Controls and Compliance:

We identified 11 reportable conditions relating to deficiencies in internal controls that could adversely affect the State's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. These conditions are described in detail in the accompanying Schedule of Findings and Questioned Costs as items 98-01 through 98-11. In brief, they are as follows:

- Inadequate accounts payable procedures
- Inadequate internal control system to identify capital leases
- Incomplete fixed assets records
- Inadequate assurance of vendor controls in an Enterprise Fund
- Inadequate segregation of duties over electronic fund transfers
- Inadequate account structure, excessive working capital and non-compliant disbursements in an Internal Service Fund
- Incorrect estimation of allowance account for unemployment tax receivables
- Incomplete reconciliation of agency accounting systems
- Untimely clearing of bank account reconciling items

We found no noncompliance with laws and regulations that could have a direct and material effect on the financial statements.

Federal Funds Controls and Compliance:

We identified 22 reportable conditions relating to significant deficiencies in the design or operation of controls over compliance that could adversely impact the State's ability to administer a major federal program in accordance with the requirements of laws, regulations, contracts and grants. These conditions related to the following areas:

- State /federal matching requirements
- Suspension and debarment certification and bonding requirements
- Cash management procedures
- Reporting of federal funds expended
- Expenditure of funds within the period of availability
- Comparability of services provided
- Submission of verifiable information
- Earmarking requirements
- Maintenance of effort requirements
- Equitable allocation of costs
- Payments to only eligible providers
- Payments in accordance with authorized rates
- Retention of documentation to support claimed expenditures
- Pass-through responsibilities
- Subrecipient monitoring
- Reconcilable records

In 15 instances, noncompliance resulted in questioned costs that totaled $1,154,637. Questioned costs represent the amount of federal financial assistance that we believe was not spent in compliance with program rules or regulations or that was insufficiently documented for us to determine compliance. The federal government may disallow these costs and require reimbursement from the State.

The reportable conditions and instances of noncompliance are identified as items 98-12 through 98-48 in the accompanying Schedule of Findings and Questioned Costs.

Other:

Other less significant instances of noncompliance, as well as comments that may improve internal controls, are reported in the separately issued management letter.

Conclusion:

Our audit resulted in a qualified opinion and identified serious weaknesses in systems of internal control, as well as various instances of noncompliance. However, we recognize that State financial managers have initiated action that should resolve many of these issues. While the nature of any audit report is inherently critical, we believe that the State of Maine has improved both its financial reporting and its systems to ensure accountability.

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Independent Auditor's Report

To the President of the Senate and the
Speaker of the House of Representatives

We have audited the accompanying general purpose financial statements of the State of Maine, as of and for the year ended June 30, 1998, as listed in the table of contents. These general purpose financial statements are the responsibility of the State of Maine's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the discretely presented component units listed in Note 1, which represent 100 percent of the total assets and 100 percent of the total revenues of the component unit column, 100 percent of the changes in pension plan net assets and 100 percent of the assets and 100 percent of the revenues of the college and university component unit funds. We did not audit the financial statements of the Maine Governmental Facilities Authority, which represents .46 percent of the assets and .01 percent of the total revenues of the Special Revenue Fund Type. Those financial statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the discretely presented component units and for the Maine Governmental Facilities Authority, is based solely on the reports of the other auditors.

Except as discussed in the first succeeding paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. The financial statements of the Maine Educational Loan Authority, the Maine Governmental Facilities Authority, and the Maine Health and Higher Education Facilities Authority were not audited in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

Because the State of Maine does not maintain adequate systems to identify, classify and report capital leases in conformity with generally accepted accounting principles, we were unable to satisfy ourselves regarding the amounts at which fixed assets (stated at $43 million), and obligations under capital leases (stated at $0) are recorded in the Internal Service Fund.

The general purpose financial statements referred to above do not include the General Fixed Assets Account Group which should be included in order to conform with generally accepted accounting principles. The amount that should be recorded in the General Fixed Assets Account Group is not known.

The general purpose financial statements referred to above do not include financial data of the Maine Turnpike Authority, which should be included in order to conform with generally accepted accounting principles. The financial statements of the Maine Turnpike Authority were audited by other auditors whose report dated September 4, 1998, expressed an unqualified opinion on those statements, which were prepared in accordance with provisions of General Turnpike Revenue Bond Resolutions and the Authority's interpretations of those resolutions. The effect on amounts reported in the discretely presented component unit columns had the omitted component unit been included is not known.

The State's financial statements include pension information as audited by other auditors. The Statement of Changes in Pension Plan Net Assets is presented as if the Maine State Retirement System were the administrator of a single plan. Also, Notes 1 and 9 to the financial statements state that the System is the administrator of an agent, multiple-employer system. Further, Note 9 states that because there is no legal requirement that any portion of the total assets managed by the System be accumulated and utilized solely for the benefit of certain classes of members, or for members who are employees of certain participating entities, the System is regarded as administering a single plan for reporting purposes. However, subsequently the State's legal counsel did not concur with the accumulated assets representation. In our opinion, there is more than one pension plan and additional disclosure is required to conform with generally accepted accounting principles.

In our opinion, based on our audit and the reports of other auditors, except for the effect on the financial statements of the omission and representation described in the first preceding paragraph, the omissions described in the second and third preceding paragraphs, and the effect of such adjustments, if any, as might have been determined to be necessary had records concerning capital leases been adequate (discussed in the fourth preceding paragraph), the general purpose financial statements referred to in the first paragraph (as included in the table of contents) present fairly, in all material respects, the financial position of the State of Maine, as of June 30, 1998, and the results of its operations and the cash flows of its proprietary fund types, nonexpendable trust funds and discretely presented component units, the changes in pension plan net assets, and the changes in fund balances and current funds revenues, expenditures, and other changes of the college and university funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we will issue our report dated March 31, 1999, on our consideration of the State of Maine's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts and grants.

As discussed in Note 20 to the financial statements, the State of Maine implemented Governmental Accounting Standards Board Statements No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

The year 2000 supplementary information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the State of

Maine is or will become year 2000 compliant, that the State of Maine's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the State of Maine does business are or will become year 2000 compliant.

The schedules of funding progress and employer contributions for the State retirement plan and the Participating Local District plan are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 3 to the financial statements, the fund balances of the Component Units, General Fund, Special Revenue Fund, Expendable Trust Fund, Nonexpendable Trust Fund, and the contributed capital of the Internal Service Fund, have been restated.

Gail M. Chase, CIA
State Auditor

March 31, 1999

STATE OF MAINE
COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUP and DISCRETELY PRESENTED COMPONENT UNITS

June 30, 1998

(Dollars in Thousands)

	Governmental Fund Types		
	General	**Special Revenue**	**Capital Projects**
Assets and Other Debits			
Cash and Short-Term Investments	$ 335,717	$ 196,370	$ 69,149
Cash with Fiscal Agent	16,912	5,694	-
Investments	-	-	-
Restricted Deposits	-	-	-
Line of Credit	-	-	-
Investments of Deferred Compensation Plan	-	-	-
Assets Held in Trust	-	-	-
Unemployment Deposits with US Treasury	-	-	-
Receivables, Net of Allowance for Uncollectibles:			
Taxes Receivable	225,169	52,058	-
Due from Other Governments	-	157,433	-
Loans Receivable	1	1,323	-
Notes Receivable	-	-	-
Other Receivable	23,632	53,066	-
Due from Other Funds	10,469	15,251	-
Due from Primary Government	-	-	-
Inventories	2	20,458	-
Fixed Assets - Net of Depreciation Where Applicable	-	-	-
Working Capital Receivable	1,536	-	-
Other Assets	46	79	-
Amount to be Provided for Retirement of General Long-Term Obligations	-	-	-
Total Assets and Other Debits	$ 613,484	$ 501,732	$ 69,149
Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accounts Payable	$ 83,249	$ 155,629	$ 5,504
Accrued Payroll	13,931	16,573	-
Compensated Absences	1,457	1,711	-
Tax Refunds Payable	77,212	-	-
Due to Other Governments	7,000	51,379	-
Due to Other Funds	17,313	15,517	-
Due to Component Units	13,591	5,002	4,263
Deferred Compensation Payable	-	-	-
Agency Liabilities	-	-	-
Claims Payable	-	-	-
Interest Payable	-	-	-
Other Accrued Liabilities	10,596	2,617	-
Certificates of Participation and Other Financing Arrangements	-	-	-
Obligations Under Capital Leases	-	-	-
Pension Obligation	-	-	-
Amounts Held under State Loan Programs	-	-	-
Deferred Revenue	73,482	43,790	-
Undisbursed Grant and Administrative Funds	-	-	-
Bonds and Notes Payable	448	-	-
Working Capital Payable	-	250	-
Total Liabilities	298,279	292,468	9,767
Fund Equity and Other Credits:			
Contributed Capital	-	-	-
Retained Earnings:			
Reserved	-	-	-
Unreserved	-	-	-
Fund Balances (Deficits):			
Reserved for Continuing Appropriations	74,856	204,568	-
Reserved for Unemployment Benefits	-	-	-
Reserved for Nonexpendable Trusts	-	-	-
Reserved for Pension Benefits	-	-	-
Reserved for Debt Service	16,630	1,546	-
Reserved for Capital Projects	-	-	59,382
Reserved for Tax Relief	154,045	-	-
Other Reservations	10,386	1,282	-
Net Investment in Plant	-	-	-
Unreserved	59,288	1,868	-
Total Fund Equity and Other Credits	315,205	209,264	59,382
Total Liabilities, Fund Equity and Other Credits	$ 613,484	$ 501,732	$ 69,149

The accompanying notes are an integral part of the financial statements.

Primary Government						
Proprietary Fund Types		Fiducia		Total (Memorandum Only)		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Long-Term Obligations	Primary Government	Component Units	Reporting Entity
$ 7,039	$ 39,489	$ 10,335	$ -	$ 658,099	$ 663,196	$ 1,321,295
-	775	2	-	23,383	111,138	134,521
-	-	66,621	-	66,621	6,502,636	6,569,257
-	-	-	-	-	12,135	12,135
-	-	-	-	-	38,223	38,223
-	-	159,172	-	159,172	-	159,172
-	-	40,425	-	40,425	240	40,665
-	-	162,416	-	162,416	-	162,416
-	-	-	-	277,227	-	277,227
-	-	-	-	157,433	18,651	176,084
7,338	-	-	-	8,662	2,006,338	2,015,000
-	-	-	-	-	35,982	35,982
8,885	2,522	1,237	-	89,342	750,238	839,580
3	8,904	23	-	34,650	12,173	46,823
-	-	-	-	-	24,079	24,079
3,055	4,378	-	-	27,893	5,121	33,014
52,284	42,997	-	-	95,281	362,679	457,960
-	-	-	-	1,536	-	1,536
49	629	1,972	-	2,775	35,404	38,179
-	-	-	626,620	626,620	-	626,620
$ 78,653	$ 99,694	$ 442,203	$ 626,620	$ 2,431,535	$ 10,578,233	$ 13,009,768

$ 6,214	$ 5,590	$ 665	$ -	$ 256,851	$ 68,521	$ 325,372
199	1,025	-	-	31,728	1,064	32,792
472	985	-	27,887	32,512	993	33,505
-	-	-	-	77,212	-	77,212
-	-	-	-	58,379	8,055	66,434
1,407	413	-	-	34,650	12,173	46,823
1,223	-	-	-	24,079	-	24,079
-	-	159,172	-	159,172	1,507	160,679
-	-	45,034	-	45,034	-	45,034
-	92,580	-	-	92,580	-	92,580
-	-	-	-	-	28,233	28,233
6,342	469	(5)	-	20,019	102,525	122,544
-	16,221	-	6,137	22,358	-	22,358
-	-	-	-	-	5,328	5,328
-	-	-	95,546	95,546	-	95,546
-	-	-	-	-	62,198	62,198
366	3,246	1,223	-	122,107	45,466	167,573
-	-	-	-	-	4,452	4,452
-	-	-	497,050	497,498	2,978,893	3,476,391
1,000	286	-	-	1,536	-	1,536
17,223	120,815	206,089	626,620	1,571,261	3,319,408	4,890,669
54,394	29,565	-	-	83,959	-	83,959
-	-	-	-	-	159,705	159,705
7,036	(50,686)	-	-	(43,650)	212,637	168,987
-	-	-	-	279,424	-	279,424
-	-	163,510	-	163,510	-	163,510
-	-	18,569	-	18,569	7,361	25,930
-	-	-	-	-	6,181,956	6,181,956
-	-	-	-	18,176	108,633	126,809
-	-	-	-	59,382	9,456	68,838
-	-	-	-	154,045	-	154,045
-	-	-	-	11,668	261,195	272,863
-	-	-	-	-	297,774	297,774
-	-	54,035	-	115,191	20,108	135,299
61,430	(21,121)	236,114	-	860,274	7,258,825	8,119,099
$ 78,653	$ 99,694	$ 442,203	$ 626,620	$ 2,431,535	$ 10,578,233	$ 13,009,768

STATE OF MAINE
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT

Fiscal Year Ended June 30, 1998
(Dollars in Thousands)

	Primary Government						
	Governmental Fund Types			Fiduciary Fund Type		Governmental Fund Type	
	General	Special Revenue	Capital Projects	Expendable Trust	Total (Memorandum Only) Primary Government	Component Unit	Total (Memorandum Only) Reporting Entity
Revenues:							
Taxes	$ 1,971,297	$ 354,707	$ -	$ 122,803	$ 2,448,807	$ -	$ 2,448,807
Assessments and Other Revenues	58,930	116,572	-	-	175,502	-	175,502
Federal Grants and Reimbursements	5,425	1,332,260	-	-	1,337,685	-	1,337,685
Service Charges	30,324	83,118	-	-	113,442	2,229	115,671
Received and Receivable from Institutions	-	-	-	-	-	69,133	69,133
Income from Investments	-	161	-	11,387	11,548	10,569	22,117
Net Increase in the Fair Value of Investments	-	-	-	8,047	8,047	122	8,169
Miscellaneous Revenues	8,459	39,139	4,051	5,498	57,147	2,547	59,694
Total Revenues	2,074,435	1,925,957	4,051	147,735	4,152,178	84,600	4,236,778
Expenditures:							
General Government	182,158	134,572	(3,082)	385	314,033	112,539	426,572
Economic Development	31,264	60,909	-	-	92,173	-	92,173
Education and Culture	751,108	93,152	1,491	-	845,751	-	845,751
Human Services	567,006	1,144,819	299	-	1,712,124	-	1,712,124
Labor	13,021	70,592	-	88,312	171,925	-	171,925
Natural Resources	40,609	50,308	12,821	-	103,738	-	103,738
Public Protection	22,780	63,988	241	-	87,009	-	87,009
Transportation	3,672	272,523	42,928	-	319,123	-	319,123
Debt Service:							
Principal Payments	56,546	20,900	-	-	77,446	26,121	103,567
Interest Payments	18,737	8,037	-	-	26,774	43,237	70,011
Total Expenditures	1,686,901	1,919,800	54,698	88,697	3,750,096	181,897	3,931,993
Revenues over (under) Expenditures	387,534	6,157	(50,647)	59,038	402,082	(97,297)	304,785
Other Financing Sources (Uses):							
Operating Transfers In	101,887	143,486	-	-	245,373	-	245,373
Operating Transfers Out	(129,367)	(43,767)	(4,025)	(6,969)	(184,128)	-	(184,128)
Bond Proceeds	-	-	84,500	-	84,500	129,755	214,255
Transfers to Component Units	(193,929)	(21,585)	(18,362)	-	(233,876)	-	(233,876)
Net Other Financing Sources (Uses)	(221,409)	78,134	62,113	(6,969)	(88,131)	129,755	41,624
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	166,125	84,291	11,466	52,069	313,951	32,458	346,409
Fund Balances at Beginning of Year (As Restated)	149,080	124,973	47,916	165,476	487,445	164,755	652,200
Fund Balances at End of Year	$ 315,205	$ 209,264	$ 59,382	$ 217,545	$ 801,396	$ 197,213	$ 998,609

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANC

BUDGETARY BASIS - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUND TYPES

Fiscal Year Ended June 30, 1998
(Dollars in Thousands)

	General Fund			Special Revenue Fund		
	Actual	Budget	Variance Favorable/ (Unfavorable)	Actual	Budget	Variance Favorable/ (Unfavorable)
Revenues:						
Taxes	$ 2,025,687	$ 1,920,347	$ 105,340	$ 361,225	$ 345,328	$ 15,897
Assessments and Other Revenues	58,930	52,955	5,975	116,573	125,094	(8,521)
Federal Grants and Reimbursements	5,425	8,496	(3,071)	1,329,740	1,639,122	(309,382)
Service Charges	30,324	15,456	14,868	62,075	94,855	(32,780)
Miscellaneous Revenues	8,548	13,660	(5,112)	135,601	107,444	28,157
Total Revenues	2,128,914	2,010,914	118,000	2,005,214	2,311,843	(306,629)
Expenditures:						
General Government	238,759	251,218	12,459	136,835	161,927	25,092
Economic Development	31,264	32,507	1,243	60,909	91,918	31,009
Education and Culture	964,636	969,949	5,313	94,482	106,983	12,501
Human Services	580,090	612,563	32,473	1,216,661	1,328,512	111,851
Labor	13,021	16,747	3,726	70,592	112,436	41,844
Natural Resources	40,459	42,808	2,349	50,308	81,434	31,126
Public Protection	22,780	24,529	1,749	63,988	79,508	15,520
Transportation	6,514	7,074	560	297,684	397,365	99,681
Total Expenditures	1,897,523	1,957,395	59,872	1,991,459	2,360,083	368,624
Excess Revenues over (under) Expenditures	231,391	53,519	177,872	13,755	(48,241)	61,996
Other Financing Sources (Uses):						
Operating Transfers In	91,607	69,292	22,315	89,864	85,020	4,844
Operating Transfers Out	(94,305)	(89,530)	(4,775)	(28,725)	(11,085)	(17,640)
Other Budgeted Resources	-	-	-	1,312	-	1,312
Net Other Financing Sources (Uses)	(2,698)	(20,238)	17,540	62,451	73,935	(11,484)
Excess Revenues and Other Sources over (under) Expenditures and Other Uses	228,693	$ 33,281	$ 195,412	76,206	$ 25,695	$ 50,511
Beginning Fund Balances	217,199			171,437		
Ending Fund Balances	$ 445,892			$ 247,643		

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS/FUND BALANCES, AND CONTRIBUTED CAPITAL
ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

Fiscal Year Ended June 30, 1998
(Dollars in Thousands)

	Primary Government				
	Proprietary Fund Types		Fiduciary Fund Types	Total (Memorandum Only)	Component Units
	Enterprise	Internal Service	Nonexpendable Trusts		
Operating Revenues:					
Charges for Services	$ 226,649	$ 124,712	$ -	$ 351,361	$ 341
Interest on Loans Receivable from Governmental Units	-	-	-	-	46,033
Income from Investments	-	-	(208)	(208)	30,145
Fair Value Increases (Decreases)	-	-	2,168	2,168	7,059
Interest Income from Mortgages and Notes	-	-	-	-	78,380
Grant Revenue from Other Governments	-	-	-	-	51,773
Federal Rent Subsidy Income	-	-	-	-	52,949
Reinsurance Recoveries - Guaranteed Student Loans	-	-	-	-	11,481
Miscellaneous Revenues	108	-	(287)	(179)	15,727
Total Operating Revenues	226,757	124,712	1,673	353,142	293,888
Operating Expenses:					
General Operations	166,434	93,366	-	259,800	19,136
Depreciation	3,303	9,672	-	12,975	479
Interest Expense	67	894	-	961	127,226
Grant Related Expenses	-	-	-	-	35,971
Federal Rent Subsidy Expense	-	-	-	-	52,949
Claims/Fees Expense	-	52,401	-	52,401	-
Miscellaneous Expenses	-	-	-	-	24,480
Total Operating Expenses	169,804	156,333	-	326,137	260,241
Operating Income (Loss)	56,953	(31,621)	1,673	27,005	33,647
Nonoperating Revenue (Expenses):	1,556	1,325	-	2,881	(6,741)
Income (Loss) before Operating Transfers	58,509	(30,296)	1,673	29,886	26,906
Transfers In (Out):					
Transfers In	2,842	-	-	2,842	-
Transfers Out	(64,087)	-	-	(64,087)	-
Transfers from Primary Government	-	-	-	-	20,984
Total Operating Transfers	(61,245)	-	-	(61,245)	20,984
Income (Loss) before Extraordinary Item	(2,736)	(30,296)	1,673	(31,359)	47,890
Income (Loss) from Extraordinary Item:					
Loss on Bond Redemption					(531)
Net Income	(2,736)	(30,296)	1,673	(31,359)	47,359
Add: Depreciation of Fixed Assets Acquired from Contributed Capital	3,074	-	-	3,074	-
Increase (Decrease) in Retained Earnings/Fund Balances	338	(30,296)	1,673	(28,285)	47,359
Retained Earnings/Fund Balances at July 1, 1997 (As Restated)	6,698	(20,390)	16,896	3,204	320,501
Retained Earnings/Fund Balances at June 30, 1998	$ 7,036	$ (50,686)	$ 18,569	$ (25,081)	$ 367,860
Contributed Capital at July 1, 1997 (As Restated)	56,646	28,792		85,438	
Add: Capital Contributions	822	773		1,595	
Less: Depreciation of Fixed Assets Acquired from Contributed Capital	(3,074)	-		(3,074)	
Contributed Capital at June 30, 1998	$ 54,394	$ 29,565		$ 83,959	

The accompanying notes are an integral part of the financial statements.

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STATE OF MAINE
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

Fiscal Year Ended June 30, 1998
(Dollars in Thousands)

	Primary Government				
	Proprietary Fund Types		Fiduciary Fund Type		
	Enterprise	Internal Service	Nonexpend-able Trust	Total (Memorandum Only)	Component Units
Cash Flows from Operating Activities:					
Excess of Revenues Over Expenses/Net Operating Income	$ 58,509	$ (30,297)	$ 1,673	$ 29,885	$ 47,358
Adjustments to Reconcile Excess of Revenues over					
Expenses to Net Cash Provided by Operating Activities:					
Investments and Other Income	-	-	-	-	(33,329)
Depreciation/Amortization	3,303	9,672	-	12,975	479
Amortization	-	-	-	-	2,060
Accretion on Capital Appreciation of Bonds	-	-	-	-	1,446
Net Increase in Fair Value of Investments	-	-	-	-	(7,059)
Interest Expense on Bonds Payable					
and Deferred Financing Costs	-	-	-	-	124,670
Grants from Federal Government and Primary Government	-	-	-	-	(26,640)
Provision for Losses on Insured Commercial and Student Loans	-	-	-	-	974
Recovery of Losses on Notes Receivable	-	-	-	-	61
Extraordinary Loss on Early Extinguishment of Bonds	-	-	-	-	19
Gain on Investment Sale	-	-	-	-	(584)
Changes in Assets and Liabilities:					
Restricted Deposits	-	-	-	-	(8,166)
Accounts Receivable	-	-	-	-	(125,855)
Other Receivable	(1,853)	(879)	-	(2,732)	-
Loans Receivable	1,363	-	-	1,363	-
Receivable Reserves	733	(8)	-	725	-
Due from Other Funds	18	(224)	-	(206)	-
Inventories	126	99	-	225	-
Loans Receivable from Governmental Units	-	-	-	-	(92,554)
Accrued Interest Receivable from					
Governmental Units	-	-	-	-	(324)
Fees Receivable from Institutions	-	-	-	-	-
Fees Receivable from Trusteed Funds	-	-	-	-	-
Other Assets	78	(194)	16	(100)	3,297
Accounts Payable	709	(893)	-	(184)	839
Accrued Payroll	(230)	11	-	(219)	-
Compensated Absences	21	49	-	70	-
Due to Other Funds	1,332	(578)	-	754	-
Due to Component Unit	(257)	-	-	(257)	-
Deferred Revenue	35	1,909	-	1,944	8,729
Working Capital Payable	-	(13,007)	-	(13,007)	-
Claims and Judgments	-	37,567	-	37,567	-
Undisbursed Administrative Funds	-	-	-	-	157
Net of Receipts/(Payments) of Federal Government	-	-	-	-	(1,297)
Other Accrued Liabilities	(1,412)	(68)	(17)	(1,497)	7,552
Default Payments (Net of Recoveries) on Commercial and					
Student Loans	-	-	-	-	(1,262)
Principal Payments Received on Notes Receivable	-	-	-	-	11,058
Interest Received on Educational Loans	-	-	-	-	2,917
Disbursements for New Notes Receivable	-	-	-	-	(14,592)
Educational Loans Originated for Sale to Related Party	-	-	-	-	(49,587)
Sale of Educational Loans to Related Party	-	-	-	-	49,587
Increase in Amounts Held in State Revolving Loan Programs	-	-	-	-	14,010
Grant Program Funds Received (Disbursed)	-	-	-	-	(3,980)
Net Cash Provided by Operating Activities	$ 62,475	$ 3,159	1,672	$ 67,306	$ (90,016)

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

Fiscal Year Ended June 30, 1998
(Dollars in Thousands)
(continued)

	Primary Government				
	Proprietary Fund Types		Fiduciary Fund Type		
	Enterprise	Internal Service	Nonexpend-able Trust	Total (Memorandum Only)	Component Units
Cash Flows from Noncapital Financing Activities:					
Proceeds from Bonds & Notes Payable	$ -	$ -	$ -	$ -	$ 430,965
Principal Paid on Bonds & Notes Payable	-	-	-	-	(153,477)
Amount Deposited in Refunding Escrow Accounts	-	-	-	-	(63,223)
Interest Paid on Bonds & Notes Payable	-	-	-	-	(118,861)
Grant Receipts from Other Governments	-	-	-	-	21,680
Operating Transfers In (Out)	(61,245)	-	-	(61,245)	-
Miscellaneous Noncapital Financing Activities	-	(3,696)	-	(3,696)	2,247
Net Cash Provided by Noncapital Financing Activities	(61,245)	(3,696)	-	(64,941)	119,331
Cash Flows from Capital and Related Financing Activities:					
Additions to Land and Building	(1,440)	(6,502)	-	(7,942)	(290)
Capital Contributions	822	13,955	-	14,777	-
Net Cash Provided by Capital and Related Financing Activities	(618)	7,453	-	6,835	(290)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments	-	-	920	920	275,098
Interest paid on bonds payable	-	-	-	-	(1,542)
Purchase of Investments			(1,203)	(1,203)	(281,283)
Income Received from Investments	-	-	(1,013)	(1,013)	31,231
Net Increase (Decrease) in Short Term Investments	-	-	(203)	(203)	(6,533)
Net Cash Provided by Investing Activities	-	-	(1,499)	(1,499)	16,971
Increase (Decrease) in Cash and Cash Equivalents	612	6,916	173	7,701	45,996
Cash and Cash Equivalents at Beginning of Year	6,427	33,349	756	40,532	208,964
Cash and Cash Equivalents at End of Year	$ 7,039	$ 40,265	$ 929	$ 48,233	$ 254,960

STATE OF MAINE
STATEMENT OF CHANGES IN PLAN NET ASSETS
DISCRETELY PRESENTED COMPONENT UNIT - PENSION PLAN

Fiscal Year Ended June 30, 1998
(Dollars in Thousands)

Additions:	
Investment Income:	
Interest	$ 59,660
Dividends	22,283
Net Appreciation in the Fair Value of Investments	850,980
Less: Investment Expenses	(10,550)
Net Investment Income	922,373
Contributions:	
Members	108,528
State and Local Agencies	274,788
Total Contributions	383,316
Total Additions	1,305,689
Deductions:	
Benefits Paid	307,972
Refunds and Withdrawals	17,737
Administrative Expenses	7,517
Depreciation Adjustment	1,504
Other	547
Total Deductions	335,277
Net Increase	970,412
Net Assets Held in Trust for Pension Benefits:	
Beginning of Year	5,214,197
Reclassification	(2,653)
End of Year	$ 6,181,956

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
COMBINED STATEMENT OF CHANGES IN FUND BALANCES
DISCRETELY PRESENTED COMPONENT UNITS - COLLEGE AND UNIVERSITY FUNDS

For the Fiscal Year Ended June 30, 1998
(Dollars in Thousands)

	Current Funds					
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Plant Funds	Total (Memorandum Only)
Revenues and Other Additions:						
Unrestricted Current Fund Revenues	$ 195,845	$ -	$ -	$ -	$ -	$ 195,845
Education and General	2,084	6,981	-	-	-	9,065
Government Grants and Contracts - Restricted	-	46,971	547	-	447	47,965
Private Gifts, Grants and Contracts - Restricted	-	21,647	173	1,599	9,172	32,591
Endowment Income - Restricted	-	3,120	11	480	0	3,611
Investment Income - Restricted	3	989	35	-	436	1,463
Interest Income on Loans Receivable	-	0	1,029	-	-	1,029
Unrealized Gains on Investments	-	35	131	12,889	-	13,055
Expended for Plant Facilities	6	-	-	-	17,544	17,550
Other Additions	-	139	2	18	1,610	1,769
Total Revenues and Other Additions	197,938	79,882	1,928	14,986	29,209	323,943
Expenditures and Other Deductions:						
Educational and General Expenditures	311,997	97,122	-	1,200	-	410,319
Auxiliary Enterprise Expenditures	49,471	5	-	-	-	49,476
Administrative and Collection Costs	-	19	1,103	336	169	1,627
Interest on Indebtedness	-	-	-	-	2,605	2,605
Disposal of Plant Assets	-	-	-	-	430	430
Proceeds from New Financing	-	-	-	-	-	-
Expended for Plant Facilities	-	-	-	-	5,147	5,147
Write Down of Asset Values	21	-	23	-	24,532	24,576
Net Recoveries of Charged-off Loans	-	-	-	-	-	-
Total Expenditures and Other Deductions	361,489	97,146	1,126	1,536	32,883	494,180
Transfers Amoung Funds - Additions (Deductions):						
Mandatory:						
Principal and Interest	(6,063)	-	-	-	6,063	-
Loan Fund Transfers	(140)	-	140	-	-	-
Restricted Resources Allocated	811	(1,191)	4	127	375	126
Nonmandatory Transfers from Plant	(2,507)	-	-	-	2,507	-
Nonmandatory Transfers to Endowment	278	(127)	(40)	(328)	-	(217)
Transfers from Primary Government	178,825	22,604	-	-	6,762	208,191
Other Deductions	(1,393)	628	-	858	(3)	90
Total Transfers	169,811	21,914	104	657	15,704	208,190
Net Increase (Decrease) for the Year before Cumulative Change in Accounting Principle	6,260	4,650	906	14,107	12,030	37,953
Cumulative effect of Change in Accounting Principle	3,600	-	-	-	-	3,600
Net Increase (Decrease) for the Year	9,860	4,650	906	14,107	12,030	41,553
Fund Balance June 30, 1997	32,873	20,745	37,719	81,429	297,477	470,243
Fund Balance June 30, 1998	$ 42,733	$ 25,395	$ 38,625	$ 95,536	$ 309,507	$ 511,796

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
COMBINED STATEMENT OF CURRENT FUNDS
REVENUES, EXPENDITURES, AND OTHER CHANGES
DISCRETELY PRESENTED COMPONENT UNITS - COLLEGE AND UNIVERSITY FUNDS

For the Fiscal Year Ended June 30, 1998
(Dollars in Thousands)

	Unrestricted	Restricted	Total
Revenues:			
Tuition and Fees	$ 107,866	$ 296	$ 108,162
Federal Appropriations	200	5,456	5,656
Federal Grants and Contracts	1,466	46,941	48,407
Private Gifts, Grants and Contracts	3,114	22,903	26,017
Endowment Income	350	3,175	3,525
Sales and Services of Auxiliary Enterprise	55,015	21	55,036
Other Income	29,974	1,733	31,707
Total Current Fund Revenues	197,985	80,525	278,510
Expenditures and Mandatory Transfers:			
Educational and General:			
Instruction	124,837	11,604	136,441
Research	8,785	22,066	30,851
Public Service	15,867	19,189	35,056
Academic Support	45,758	4,405	50,163
Student Services	32,344	2,294	34,638
Institutional Support	42,567	831	43,398
Operational and Maintenance of Plant	32,372	351	32,723
Scholarships and Fellowships	9,466	36,383	45,849
Total Expenditures	311,996	97,123	409,119
Mandatory Transfers:			
Principal and Interest	3,823	-	3,823
Loan Fund	140	-	140
Total Mandatory Transfers	3,963	-	3,963
Total Educational and General	315,959	97,123	413,082
Auxiliary Enterprises:			
Expenditures	49,471	5	49,476
Mandatory Transfer for Principal and Interest	2,241	-	2,241
Total Auxiliary Enterprises	51,712	5	51,717
Total Expenditures and Mandatory Transfers	367,671	97,128	464,799
Other Transfers and Additions (Deductions):			
Excess of Restricted Receipts over Transfers to Revenues	-	3	3
Net Allocation of Resources (to) from Other Funds	(1,109)	(1,318)	(2,427)
Transfer from PG	178,825	22,605	201,430
Other Deductions	(1,754)	(37)	(1,791)
Total Transfers and Additions	175,962	21,253	197,215
Net Increase (Decrease) in Fund Balance	$ 6,276	$ 4,650	$ 10,926

The accompanying notes are an integral part of the financial statements.

INDEX TO THE NOTES TO THE COMBINED FINANCIAL STATEMENTS

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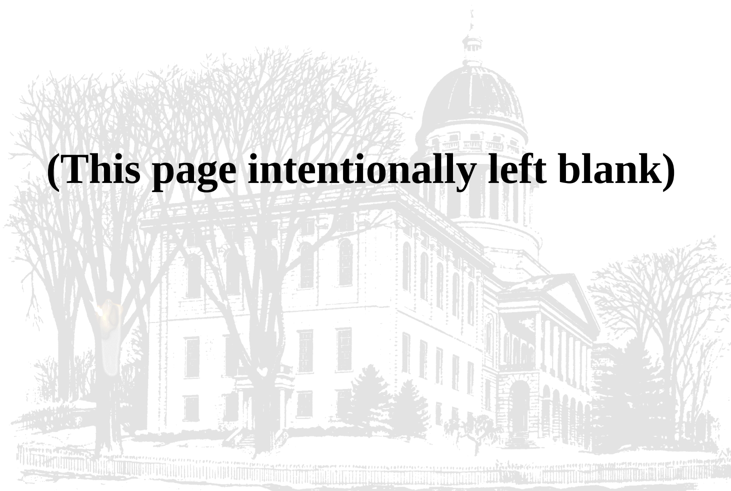

Notes to the Financial Statements
For Year Ended June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Maine have been prepared under guidelines established by generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), with certain exceptions. The financial statements do not include the General Fixed Asset Account Group, the reporting of capital leases, and the financial statements of one component unit.

Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements.

A. REPORTING ENTITY

For financial reporting purposes, the State has included all funds, account groups, organizations, agencies, boards, commissions and authorities that make up the State's legal entity. It has included as component units those legally separate organizations for which the State is financially accountable or for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete.

GASB Statement No. 14, *The Financial Reporting Entity*, defines financial accountability. The criteria for determining financial accountability include the following: 1) appointment of a voting majority of an organization's governing authority and either the ability of the primary government to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government; or 2) the organization is fiscally dependent on the primary government, or the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The State has included eleven entities as component units in the reporting entity due to the significance of their operational and/or financial relationships with the State. Agencies that meet the criteria for component units include: the Maine State Retirement System (MSRS), the Maine Technical College System (MTCS), the University of Maine System (UM), the Maine Maritime Academy (MMA), the Finance Authority of Maine (FAME), the Maine State Housing Authority (MSHA), the Maine Educational Loan Authority (MELA), the Loring Development Authority (LDA), the Maine Governmental Facilities Authority (MGFA), the Maine Health and Higher Education Facilities Authority (MHHEFA), and the Maine Municipal Bond Bank (MMBB). The financial information for these entities is either blended within the State's financial statements, or discretely presented in a separate column or in separate statements. Financial information for the Maine Turnpike Authority, which is a component unit, has not been included.

Blended Component Units - Blended component units are entities that are legally separate organizations that provide services entirely, or almost entirely, to the State or otherwise exclusively, or almost exclusively, benefit the State. Therefore, the State reports these organizations' balances and transactions as though they were part of the primary government. The Maine Governmental Facilities Authority has been blended within the financial statements of the primary government.

The Authority was created in 1997, as a successor to the Maine Court Facilities Authority, for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction, and equipping of additions to structures designed for use as a court facility, state office or state activity space in the State. The Authority is included in the Special Revenue Fund type.

Discrete Component Units - Discrete component units are entities that are legally separate from the State but that are either accountable to the State or related so closely to the State that their exclusion would cause the State's financial statements to be misleading or incomplete. The column labeled "Component Units" emphasizes these organizations' separateness from the State's primary government. It includes the financial data of the following entities:

Governmental Type
The Maine Health and Higher Education Facilities Authority assists Maine health care institutions and institutions of higher education in the undertaking of projects involving the acquisition, construction, improvement, reconstruction, and equipping of health care and educational facilities and the refinancing of existing indebtedness. The Authority, pursuant to the Student Loan Corporations Act of 1983, also has the power to finance student loan programs of institutions of higher education.

Proprietary Types
The Finance Authority of Maine was created in 1983 to provide commercial financing and loan guarantees to Maine businesses and to provide educational financing to Maine students and their parents. Additionally, the Authority provides financial and other services for the Adaptive Equipment Loan Program Fund Board, the Fund Insurance Review Board, the Agricultural Marketing Loan Fund Board, the Occupational Safety Program Fund Board, and the Small Business Enterprise Growth Fund Board. The 15 voting members of the Authority are appointed by the Governor.

The Maine State Housing Authority is authorized to issue bonds for the purchase of notes and mortgages on single-family and multifamily residential units for the purpose of providing housing for persons and families of low income in the State. The Authority also acts as agent for the State in administering federal weatherization, energy conservation, fuel assistance and homeless grant programs, and collecting and disbursing federal rent subsidies for low-income housing. The Authority has seven commissioners, five of whom are appointed by the Governor. Its fiscal year ends on December 31.

The Maine Educational Loan Authority was created in 1988 to grant educational loans primarily using funds acquired through issuance of long-term bonds payable. There are seven voting members of the Authority, five of whom are appointed by the Governor. The authority's fiscal year ends on December 31.

The Loring Development Authority was created in 1993, after the President of the United States accepted the recommendation of the Base Closure and Realignment Commission to close Loring Air Force Base. It is entrusted with investigating the acquisition, development and management of the properties within the geographical boundaries of the old Loring Air Force Base. The Board of Trustees consists of thirteen members nominated by the Governor and of which twelve are confirmed by the Maine Senate.

The Maine Municipal Bond Bank is authorized to issue bonds to provide funds to counties, cities, towns, school administrative districts, community school districts, or other quasi-municipal corporations within the State. The Bond Bank has a Board of five commissioners, three of whom must be residents of the State and appointed by the Governor.

The Maine State Retirement System is the administrator of an agent multiple-employer public employee retirement system. It provides pension, death, and disability benefits to its members, which include employees of the State, some public school employees, and employees of approximately 250 local municipalities and other public entities in Maine. The Board has seven voting members, four of whom are appointed by the Governor. Due to the nature and significance of the public employee retirement system to the State, exclusion would cause the State's financial statements to be misleading or incomplete.

Colleges and Universities

The Maine Technical College System is Maine's primary provider of post-secondary technical education leading to a certificate, diploma, or associate degree. The combined financial statements of the system include the activity of seven colleges, the central administrative office, and the Maine Career Advantage.

The University of Maine System is the State University. In 1968 all existing units of the State college system (Orono, Portland, Augusta, and the Law School) were merged by the 103rd Legislature. The result was the creation of the consolidated University of Maine System with a single Board of Trustees. The System now consists of seven campuses, the Maine Public Broadcasting Network, and a central administrative office. The educational and general portion of the total enterprise is supported by two sources, a State appropriation that makes up 41 percent of the System budget, and University revenues (primarily tuition and fees) that make up the budgetary difference of 59 percent.

Maine Maritime Academy is a college specializing in ocean and marine programs at the undergraduate and graduate level. The operation of the Academy is subject to review by the Federal Government. It is supported by State appropriations, student fees, and a subsidy from the Maritime Administration.

The State of Maine provides significant financial resources to these educational institutions.

The component units' financial information included in the reporting entity has been reformatted to conform to the accounting classifications used by the State. Condensed financial statement information for each component unit included in the component units' column in the general purpose financial statements is presented in Note 14, Segment Information.

Complete financial statements of the individual component units can be obtained directly from their respective administrative offices by writing to the following addresses:

Loring Development Authority of Maine
PO Box 457
Limestone, ME 04750-0457

Maine Health and Higher Education Facilities Authority
PO Box 2268
Augusta, ME 04338-2268

Finance Authority of Maine
83 Western Avenue, PO Box 949
Augusta, ME 04332-0949

Maine Governmental Facilities Authority
PO Box 2268
Augusta, ME 04338-2268

Maine Educational Loan Authority
526 Western Avenue, PO Box 549
Augusta, ME 04332

Maine Maritime Academy
Castine, ME 04420

Maine State Retirement System
46 State House Station
Augusta, ME 04333-0046

Maine State Housing Authority
89 State House Station, 353 Water Street
Augusta, ME 04330-4633

Maine Municipal Bond Bank
PO Box 2268
Augusta, ME 04338-2268

Maine Technical College System
131 State House Station, 323 State Street
Augusta, ME 04330-0131

University of Maine System
107 Maine Avenue
Bangor, ME 04401

Maine Turnpike Authority
450 Riverside Street
Portland, ME 04103

Related Organizations

Officials of the State's primary government appoint a voting majority of the governing boards of the Maine Science and Technology Foundation, the Maine School of Science and Mathematics, the Maine Port Authority, the Maine Veterans' Home, the Maine Sludge and Residuals Utilization Research Foundation, and the Maine Public Utilities Financing Bank. However, the primary government has no material accountability for these organizations beyond making the appointments.

B. FUND ACCOUNTING

The State reports its financial position and results of operations in funds and account groups. A fund is a separate accounting entity with a self-balancing set of accounts. Cash and other financial resources, all related liabilities and residual equities or balances, and changes therein, are recorded and segregated. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Transactions between funds, if any, have not been eliminated.

The presentation of component units is not meant to be a consolidation, since transactions within the State entity have not been eliminated. However, appropriations and most grants to the component units are recorded as operating transfers out of the applicable fund and as operating transfers into the component unit organization.

Account groups are used to provide accounting control and accountability for the State's general fixed assets and general long-term debt obligations. They are not considered funds because they do not report expendable, available financial resources and related liabilities.

The financial activities of the State of Maine are classified in three fund categories, one account group, and component units, as described below. The fund categories include governmental funds, proprietary funds, and fiduciary funds. The account group is the General Long-term Obligations Account Group. The General Fixed Asset Account Group is not reported.

Fund Types

1. Governmental Funds are used to account for the State's general activities.

   The General Fund is the primary operating fund of the State. It is used to account for all governmental transactions that are not accounted for in other funds.

   Special Revenue Funds account for specific revenue sources and the related current liabilities, other than expendable trusts or major capital projects that are legally restricted to expenditures for specified purposes.

   Capital Projects Funds account for financial resources used to acquire or construct major capital assets other than those financed by proprietary funds. These resources are derived primarily from proceeds of general obligation bonds. The State also includes in this fund type proceeds from bond issues for uses other than construction of major capital facilities.

2. Proprietary Funds account for the State's ongoing activities that are similar to those found in the private sector.

   Enterprise Funds account for transactions related to resources received and used to finance self-supporting activities of the State. These activities offer products and services on a user-charge basis to the general public.

   Internal Service Funds account for transactions related to the financing and sale of goods or services between State agencies. The costs associated with these goods or services are billed to the recipient agency as user charges.

3. Fiduciary Funds account for assets held by the State, acting as either a trustee or an agent for individuals, organizations, or other funds.

   Expendable Trust Funds account for those assets held in a trustee capacity where the principal and income may be expended in the course of the funds' designated operations.

   Nonexpendable Trust Funds account for those assets held in a trustee capacity by the State for which only income derived from the trust principal may be expended for designated operations. The principal must be preserved intact.

   Agency Funds account for assets the State holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

<u>Account Group</u>

General Long-Term Obligations Account Group is used to establish control and accountability for long-term obligations of the State not accounted for in proprietary funds or non-expendable trust funds. This includes outstanding, long-term obligations related to general obligation bonds, Certificates of Participation and other financing arrangements, compensated employee absences, and other long-term obligations.

<u>Component Units</u>

Component Units include College and University Funds and other proprietary type organizations that are legally separate from the State but are considered part of the reporting entity. There are three College and University Funds.

1. *Current Funds* account for unrestricted funds, over which the governing Boards retain full control in achieving the Institutions' purposes, and for restricted funds, which may be used only in accordance with externally restricted purposes. The funds do not show the results of operations or the net income or loss for the period.

2. *Loan, Endowment, and Agency Funds* account for assets for which the Institutions act in a fiduciary capacity.

3. *Plant Funds* account for institutional property acquisition, renewal, replacement, and debt service.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Governmental Funds and Expendable Trust Funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means earned and collected or expected to be collected within the current period or soon enough thereafter (within 12 months for individual income taxes, or within 60 days for all other revenues) to be used to pay liabilities of the current period. Property taxes are recognized as revenue in the year for which they are levied, provided the "available" criterion is met.

Property taxes are assessed by the State Tax Assessor on properties located in the Unorganized Territories of Maine and on telecommunications personal properties statewide. Property taxes levied during the current fiscal year for the subsequent period are recorded as deferred revenue during the current year. Such taxes are levied by April 1. Prepayment of one-half of the telecommunications tax is due on June 1 and all other property taxes are due on October 1. Formal collection procedures begin on November 1. Unpaid property taxes become a lien on March 15 of the fiscal year for which they are levied.

Significant revenues susceptible to accrual include income, sales and use, and other taxes, federal grants, federal reimbursements, and other reimbursements for use of materials and services. Revenues from other sources are

recognized when received. Expenditures are recorded at the time fund liabilities are incurred. Principal and interest on long-term obligations are recorded as fund liabilities when due.

Proprietary Fund Types and Nonexpendable Trust Funds are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of net income. For all proprietary funds, the State applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Agency Fund assets and liabilities are reported using the modified accrual basis of accounting. They are custodial in nature and do not measure results of operations or have a measurement focus.

The Component Unit College and University Funds are an aggregate of the Institutions' separate financial statements and are accounted for on the accrual basis of accounting, with the following exception: the Maine Maritime Academy does not record depreciation expense on physical plant and equipment, which is allowed by governmental accounting standards.

The Maine State Retirement System's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investment purchases and sales are recorded as of their trade date.

D. CASH AND SHORT-TERM INVESTMENTS, AND INVESTMENTS

The State follows the practice of pooling cash and cash equivalents for a variety of State agencies and public sector entities. Cash equivalents consist of short-term, highly liquid investments that are both readily convertible to known amounts of cash and are near maturity. The balances pooled are reported at cost, which approximates fair value. Interest earned on pooled cash is allocated to the various funds, generally based on their average equity balances. Cash with Fiscal Agent in Governmental Funds represents cash that will be used for debt service on bonds. Cash with Fiscal Agent in Proprietary Funds represents proceeds of Certificates of Participation and other financing arrangements that have not been spent.

Short-term investments reported as Cash and Short-term Investments on the Balance Sheet are comprised primarily of prime commercial paper, repurchase agreements, U.S. Treasury Bills, and U.S. Treasury Notes. Other investments of the State are carried at fair value. Donated investments are stated at fair value at the date of donation.

Certain component units participate in the cash pool and record the transactions as an investment. Component units' funds have been removed from the investments of the primary government and shown as component unit investments for purposes of note disclosure. Component units' investments are shown at fair value.

E. UNEMPLOYMENT DEPOSITS WITH UNITED STATES TREASURY

These deposits represent unemployment tax receipts deposited with the United States Treasury, which are drawn down to pay unemployment benefits.

F. RESTRICTED DEPOSITS

Restricted deposits represent funds that have been invested in Certificates of Deposit at various financial institutions within the State. The financial institutions lend these deposits to local commercial and agricultural enterprises to foster economic growth in Maine.

G. RECEIVABLES

Receivables consist primarily of amounts due to the State from taxpayers and service providers. Also included in receivables are amounts due but not yet remitted to the State from lottery sales by agents. Loans receivable for the primary government represent low interest financing arrangements for the construction and modernization of agricultural storage facilities and local commercial enterprises. The receivables in the Component Units column are amounts that have arisen in the normal course of business. Receivables are stated net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience and aging of the accounts.

H. INTERFUND TRANSACTIONS

Numerous transactions are made between funds to finance operations, provide services, and acquire or construct assets. To the extent that certain transactions between funds were not completed as of June 30, 1998, interfund receivables or payables have been recorded. Receivables and payables resulting from transactions between funds are classified as “Due from Other Funds” or “Due to Other Funds” on the balance sheet.

The Bureau of Alcoholic Beverages and Lottery Operations is statutorily required to transfer all net earnings to the General Fund. For fiscal year 1998, these transfers totaled $63.9 million.

Advances to and from other funds are long-term loans made by one fund to another. Receivables and payables resulting from transactions between funds are classified as “Working Capital Receivable” or “Working Capital Payable” on the balance sheet. The advances are offset by a fund balance reserve indicating that the reserves do not constitute expendable financial resources.

Receivables and payables between the component units and the primary government are classified as “Due To/From Primary Government” or “Due To/From Component Units.” Due primarily to a difference in presentation between the primary government and a component unit the “Transfers to Component Units” and “Transfers from Primary Government” do not balance by $4.7 million. The component unit reports a revolving loan fund, $62 million at June 30, 1998, as a liability. The State presents the transactions as transfers out. Because the State does not expect the funds to be returned, a receivable is not recorded.

I. INVENTORIES

The costs of materials and supplies of the governmental funds are reported as expenditures when purchased. Food stamps are stated at coupon value and any unexpended balances at fiscal year end are reported as inventory and deferred revenue in the Special Revenue Fund. Revenues and corresponding expenditures are recognized when the food stamps are issued.

Inventories of materials and supplies in the Proprietary Funds are determined by physical counts and by perpetual inventory systems. Proprietary Fund inventories are stated at cost or average cost, except for those of the Bureau of Alcoholic Beverages, which are maintained on a current replacement cost basis. Although this basis is not in conformity with GAAP, it does not result in a material misstatement.

Inventories included in the component unit column are stated at the lower of cost (using the first-in, first-out method) or market (using the purchase or consumption method).

J. FIXED ASSETS

For Governmental Funds, fixed asset acquisitions are recorded as expenditures in the acquiring fund**.** Infrastructure assets such as highway curbs, bridges, and lighting systems are not capitalized. Fixed asset acquisitions of Proprietary Funds are accounted for in the acquiring fund and stated net of accumulated depreciation. Depreciation is recorded on a straight-line basis over the assets' estimated useful lives, which are 10-40 years for buildings and improvements and 2-25 years for equipment except for the Portland dry-dock which is depreciated over 40 years. No interest has been capitalized on self-constructed assets, as non-capitalization of interest does not have a material effect on the financial statements.

Fixed assets of Component Units are capitalized upon purchase and depreciated over the estimated useful lives of the assets. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are 3–100 years for structures and improvements, and 3–25 years for equipment, furniture, fixtures and vehicles. The Maine Maritime Academy does not record depreciation, which is allowed by governmental accounting standards.

K. TAX REFUNDS PAYABLE

Tax refunds payable primarily represent amounts owed to taxpayers because of overpayments of their 1997 calendar year tax liabilities. Tax refunds are accrued based on payments and estimates.

L. CLAIMS PAYABLE

Claims payable represent workers' compensation and other claims payable at June 30, 1998. These include actual claims submitted, as well as actuarially determined claims incurred but not reported. The actuarially determined claims liability is discounted and presented at net present value.

M. DEFERRED REVENUE

Revenue that does not meet the "availability" criterion for recognition in the current period is classified as deferred revenue. Resources received by the government before it has a legal claim to them are also included as deferred revenue. In subsequent periods, when the revenue recognition criterion is met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet, and revenue is recognized. Most of the deferred revenue reported in the General Fund is for property tax assessments on telecommunications equipment. Most of the deferred revenue in the Special Revenue Fund is for food stamps not yet issued.

N. DUE FROM/TO OTHER GOVERNMENTS

At June 30, 1998, amounts Due From/To Other Governments represents amounts receivable from or payable to municipalities or the federal government. Due to Other Governments are primarily amounts owed to municipalities for Municipal Revenue Sharing and the federal government for Medicaid cost recoveries from providers. Municipal Revenue Sharing and Medicaid cost recoveries are recorded in the Special Revenue Fund. Due from Other Governments represents primarily federal grants receivable for Medicaid claims. Due From Other Governments in the component units column represents money due from other governments for grants or owed for retirement benefits.

O. COMPENSATED EMPLOYEE ABSENCES

Under the terms of union contracts and personnel administrative policies, employees are granted limited amounts of vacation, sick, and personal days, as well as compensatory time. Upon separation from State service, employees are eligible for compensation for accrued vacation, personal days, compensatory time, and (in some cases) sick leave. For Governmental Funds, vested or accumulated leave expected to be liquidated with current available financial resources is reported as an expenditure and fund liability. Other leave is reported in the General Long-

Term Obligations Account Group. Compensated employee absence benefits in the Proprietary Funds are recorded as expenses and liabilities as they accrue.

In the discretely presented component units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

P. OTHER ACCRUED LIABILITIES

Other liabilities of the Governmental Funds consist primarily of amounts owed to providers for medical services. The liability for medical services includes an estimate of provider claims for services provided but not billed as of the State's fiscal year end, net of anticipated recoveries.

Contractor retainage is included in Other Accrued Liabilities of the Special Revenue Fund.

Other liabilities in the Enterprise Fund consist primarily of lottery prizes payable.

Q. LONG TERM OBLIGATIONS

Primary Government
The State records Governmental Fund long-term debt in the General Long Term Obligations Account Group. This includes the State's general obligation bonds, Certificates of Participation and other financing arrangements, long term liabilities for compensated employee absences, and the net pension obligation.

Also included in the General Long Term Obligations Account Group, as part of General Obligation Bonds, is $19.6 million in bonds issued by the Maine Governmental Facilities Authority, a blended component unit. Payment of these bonds is subject to, and dependent upon, biennial appropriations being made by the State Legislature.

Long term debt and other obligations of the Proprietary Funds, as well as the related interest payments, are recorded as liabilities in the appropriate funds.

Component Units
Loans, notes, and bonds payable for component units are for commercial financing, educational loans, and loans to counties, cities, towns, school administrative districts, other quasi-municipal corporations, multifamily low income residential units, and for the construction or capital improvement of school facilities and health care facilities.

R. FUND BALANCES

The State reports fund balances as reserved where legally restricted for a specific future use. Otherwise, these balances are considered unreserved. The State has the following reservations:

Reserved for Continuing Appropriations - identifies appropriations and encumbrances that the Legislature has specifically authorized to be carried into the next fiscal year if unexpended.

Reserved for Nonexpendable Trusts - identifies the nonexpendable amount of the trust principal.

Reserved for Unemployment Benefits - identifies amounts reserved for payment of unemployment compensation.

Reserved for Debt Service - identifies amounts held by fiscal agents to fund future debt service obligations.

Reserved for Capital Projects - identifies a legally segregated portion of funds available to finance the construction of major capital facilities.

Reserved for Tax Relief - identifies amounts reserved to provide tax relief for Maine residents.

Other Reservations - identifies the amount of fund balance reserved for other specified purposes including working capital needs, long term loans to other funds, and contingency funds from which the Governor may allocate sums for various purposes.

Contributed Capital - identifies equity acquired through contributions from other funds.

S. TOTAL COLUMN - MEMORANDUM ONLY

Total columns included in certain statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented for information only.

T. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

In October 1997, GASB issued Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* The provisions of this Statement eliminate the requirements that Section 457 plan assets legally remain the assets of the sponsoring government and be reported in an agency fund as assets and liabilities of the government. Only those Section 457 plans that meet the existing criteria for inclusion in fiduciary funds may be reported in the financial statements. For plans in existence at August 20, 1996, the provisions of this statement are effective January 1, 1999. The State plans to implement this Statement for the year ended June 30, 1999. It is anticipated that the Section 457 plan will not be reported on the State's financial statements, as the State does not plan to have significant administrative involvement or perform the investing function.

In December 1998, GASB issued Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement establishes accounting and financial reporting standards for nonexchange transactions involving financial or capital resources such as most taxes, grants and private donations. In a nonexchange transaction, a government gives or receives value without directly receiving or giving equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. The principal issue addressed in this Statement is the timing of recognition of nonexchange transactions. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2000. The state may implement this Statement for the year ended June 30, 1999.

NOTE 2 - BUDGETARY PROCESS

In accordance with statute, the Governor presents a biennial budget for the General Fund and the Special Revenue Funds to the Legislature for enactment or revision. Effective November 27, 1995, a State Constitutional Amendment provided the Governor a "line item" veto of dollar amounts, allowing a dollar substitution for those amounts disapproved, as long as an appropriation or allocation is not increased (or a deappropriation or deallotment decreased) either in the specified line or in any other line in the legislative document. Another Constitutional Amendment requires the State to fund at least 90 percent of the annual cost of future mandates imposed on local governments; any exception requires a two-thirds vote of the elected members of the House and Senate.

Once passed and signed, the budget becomes the financial plan for the next biennium. It includes proposed expenditures for all departments and agencies, interest and debt redemption charges, and expenditures for capital projects to be undertaken and executed during each fiscal year. The budget also includes anticipated revenues and any other means of financing expenditures. In 1995, the Revenue Forecasting Committee was established. In fiscal year 1998, a law was passed that requires the State Budget Officer to use the revenue projections of the Revenue Forecasting Committee in preparing the General Fund and Highway Fund revenue and expenditure forecasts.

Budgetary control is maintained at the account and line category level at which appropriations and allocations are approved by the Legislature, principally through a quarterly allotment system. Budget revisions during the year, reflecting program changes or intradepartmental administrative transfers, must be approved by the State Budget Officer and the Governor. Except in specific instances, only the Legislature may transfer appropriations between departments. Increases in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budget. In order to provide sufficient funding for several programs during the year ended June 30, 1998, supplemental appropriations of $58.7 million were required for the General Fund.

Encumbrance accounting, which requires that purchase orders, contracts, and other commitments be recorded to reserve a portion of an appropriation or allocation for expenditure, is employed as an extension of formal budgetary control. Appropriated and allocated balances are available for subsequent expenditure to the extent that encumbrances have been approved by the end of a fiscal year. Encumbrances outstanding at year-end are reported as reservations of fund balances representing those portions of fund balances that are not available for allocation or expenditure, or that are legally segregated for specific future uses. Unencumbered appropriations in the General Fund and in the Highway Fund lapse at year-end unless, by law, they are carried forward to a subsequent year.

The State's budget is prepared primarily on a cash basis, the significant exceptions being sales, income and corporate taxes for which 60-day accruals are recorded at year end. A reconciliation of the General Fund and the Special Revenue Fund to the GAAP basis is presented in the accompanying tables.

Budget to GAAP Reconciliation
June 30, 1998
(Dollars in Thousands)

	General Fund	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$ 445,892	$ 247,643
Basis Differences		
Revenue Accruals/Adjustments:		
Taxes Receivable	118,339	15,230
Intergovernmental Receivables	-	(98,843)
Other Receivables	15,973	(47,031)
Due from Other Funds	9,220	11,818
Other Assets	(6,708)	(3,206)
Deferred Revenues	(72,582)	(8,708)
Total Revenue Accruals/Adjustments	64,242	(130,740)
Expenditure Accruals/Adjustments:		
Accounts Payable	(69,099)	83,654
Due to Other Governments	(7,000)	19,419
Accrued Liabilities	(25,235)	(19,354)
Due to Other Funds	(4,386)	2,905
Due to Component Units	(13,536)	3,830
Tax Refunds Payable	(77,212)	-
Total Expenditure Accruals/Adjustments	(196,468)	90,454
Perspective Differences		
Amounts reported in the Debt Service Fund on the budgetary basis and included in the General Fund on the GAAP basis	1,539	-
Entity Differences		
Blended Component Unit included in the Special Revenue Fund on a GAAP basis but not on a budgetary basis	-	1,907
Fund Balances - GAAP Basis	$ 315,205	$ 209,264

NOTE 3 - FUND BALANCE AND RETAINED EARNINGS RESTATEMENTS

Restatement
The restatement of fund balances/retained earnings as of June 30, 1997, is as follows:

Restatement of Fund Balances/Retained Earnings
(Dollars in Thousands)

Fund	Fund Balance/Retained Earnings as Previously Reported, June 30, 1997	Increase (Decrease) for Restatement	Fund Balance/Retained Earnings as Restated, July 1, 1997
General Fund	$ 133,291	$ 15,789	$ 149,080
Special Revenue Fund	132,539	(7,566)	124,973
Internal Service Funds	(20,108)	(282)	(20,390)
Expendable Trust Funds	156,403	9,073	165,476
NonexpendableTrust Funds	12,692	4,204	16,896
Component Units	5,998,679	171,017	6,169,696

The General Fund has been restated primarily to reflect a revised federal participation rate in the Medicaid program.

The Special Revenue Funds have been restated primarily to remove a working capital advance ($13.2 million) and to reduce prior year expenditures by $6.1 million.

The Internal Service Funds have been restated for a reclassification of Retained Earnings as Contributed Capital.

The Expendable Trust Funds and the Nonexpendable Trust Funds have been restated primarily for the reporting of investments at fair value as related to GASB 31.

The component unit fund balance has been restated to reflect the addition of the Maine Health and Higher Education Facilities Authority ($165 million) which was not included in the previous year and increases in investments related to GASB 31.

Restatement of Contributed Capital
(Dollars in Thousands)

Fund	Contributed Capital as Previously Reported, June 30, 1997	Increase (Decrease) for Restatement	Contributed Capital as Restated, July 1, 1997
Internal Service Funds	$15,328	$13,464	$28,792

Contributed Capital for the Internal Service funds has been restated mostly because of a reclassification of a Working Capital Payable to Contributed Capital.

NOTE 4 - DEFICIT FUND BALANCES/RETAINED EARNINGS

Two Internal Service Funds, the Workers' Compensation Fund and the Retiree Health Insurance Fund, had deficit Retained Earnings for the fiscal year ended June 30, 1998. The $82.2 million deficit in the Workers' Compensation Fund reflects the accrual of a $89.4 million actuarial liability for claims payable.

Two Enterprise Funds, the Community Industrial Building Fund and the Alcoholic Beverages fund, had deficit fund balances of $39 thousand and $110 thousand respectively.

NOTE 5 - DEPOSITS AND INVESTMENTS

The deposit and investment policies of the State of Maine Office of the Treasurer are governed by Title 5 of the Maine Revised Statutes Annotated (M.R.S.A.). Per 5 M.R.S.A. § 135, the Treasurer of State may deposit State funds, including trust funds of the State, in any of the banking institutions (including trust companies, State or federal savings and loan associations, and mutual savings banks) organized under the laws of this State, and any national bank or federal savings and loan association located in the State.

The Treasurer of State may invest funds that exceed current obligations, with the concurrence of the State Controller or the Commissioner of Administrative and Financial Services, and the consent of the Governor. Approved investments include bonds, notes, other obligations of the United States that mature not more than 24 months from the date of investment, repurchase agreements secured by obligations of the United States that mature within the succeeding 24 months, prime commercial paper, tax-exempt obligations, banker's acceptances, or shares of an investment company registered under the federal Investment Company Act of 1940 if the investments of the company are limited to obligations of the United States or repurchase agreements secured by obligations of the United States.

Investment policies of the permanent trust funds are governed by 5 M.R.S.A. § 138. The Treasurer of State, with the approval of the Commissioner of Administrative and Financial Services, the Superintendent of Banking, the Commissioner of Education, and the Attorney General shall invest the funds in securities that are legal investments in accordance with Title 9-B, M.R.S.A. The investments need not be segregated to the separate trust funds but the identity of each separate trust fund must be maintained. The State may enter into custodial contracts or agreements negotiated in accordance with the laws of this State for the handling of funds held in trust.

With assistance from the Finance Authority of Maine, the State Treasurer participates in a restricted deposit program to encourage banks to provide loans at two percent below market rates. The Treasurer may invest up to eight million dollars in lending institutions at a two percent lower-than-market rate provided the lenders pass the rate reduction on to the borrowers. Four million dollars of this program are earmarked for loans to agricultural enterprises and four million are designated for commercial entities.

No amounts exceeding 25% of the capital, surplus, and undivided profits of any trust company or national bank, or 25% of the reserve fund and undivided profits of a mutual savings bank or State or federal savings and loan association, shall be on deposit in any one institution at any one time. This restriction does not apply to deposits subject to immediate withdrawal to meet the payment of any bonded debt or interest, or to pay current bills or expenses of the State. Also exempt are deposits secured by the pledge of certain securities as collateral or fully covered by insurance.

DEPOSITS

Deposits with financial institutions are classified as to collateral risk into three categories. Category 1 is the amount of State deposits that are fully insured or collateralized with securities held by the State or its agent in the State's name. Category 2 is the amount of deposits that are collateralized with securities held by the pledging

financial institution's trust department or agent in the State's name. Category 3 is the amount of deposits that are not collateralized or insured. Deposits of the Reporting Entity at June 30, 1998 are as follows:

Primary Government - Deposits
June 30, 1998
(Dollars in Thousands)

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Cash and Cash Equivalents	$ 26,356	$ 3,015	$ 48,978	$ 78,349	$ (21,537)
Cash with Fiscal Agent	-	-	23,383	23,383	23,383
Restricted Deposits	755	-	7,617	8,372	8,372
Total	$ 27,111	$ 3,015	$ 79,978	$110,104	$ 10,218

Component Unit - Deposits
June 30, 1998
(Dollars in Thousands)

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Cash and Cash Equivalents	$ 11,348	$ 7,042	$ 8,630	$ 33,773	$ 21,452
Cash with Fiscal Agent	-	-	-	-	-
Restricted Deposits	283	-	785	1,068	1,068
Other	288	-	-	288	288
Total	$ 11,919	$ 7,042	$ 9,415	$ 35,129	$ 22,808

INVESTMENTS

Investments are classified to indicate the level of risk assumed by the State. Category 1 consists of investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 are those investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the State's name. Investments of the Primary Government at June 30, 1998 are as follows:

Primary Government - Investments
June 30, 1998
(Dollars in Thousands)

	Category 1	Category 2	Category 3	Fair Value
U.S. Government and Agency Obligations	$ 17,419	$ 4,120	$ 9,839	$ 31,378
Repurchase Agreements	76,228	-	-	76,228
Commercial Paper	573,379	-	-	573,379
Corporate Bonds and Notes	-	2,554	5,268	7,822
Equity Securities	-	11,518	33,353	44,871
Other	-	2,387	1,320	3,707
Totals	$ 667,026	$ 20,579	$ 49,780	737,385
Deposits with U.S. Treasury				162,416
Deferred Compensation Plan Assets				159,172
Assets Held in Trust				40,425
Total Investments – Primary Government				$ 1,099,398

COMPONENT UNITS

Generally, component unit investment policies authorize investments in obligations of the U.S. Government, repurchase agreements, corporate bonds, certificates of deposit and money market funds. Some component units may invest in stocks, bonds, fixed income securities, mutual funds, commingled mutual funds and index funds, guaranteed investment contracts, real estate and other investment securities.

Investments of the discretely presented component units at June 30, 1998 are as follows:

Component Units - Investments
June 30, 1998
(Dollars in thousands)

	Category 1	Category 2	Category 3	Fair Value
Cash and Cash Equivalents	$ 343,484	$ 106,156	$ -	$ 449,640
U.S. Government and Agency Obligations	354,711	152,336	29,959	537,006
Repurchase Agreements	196,523	15,871	1,531	213,925
Commercial Paper	73,129	-	-	73,129
Corporate Bonds and Notes	159,407	2,007	22,893	184,307
Equity Securities	1,453,537	2,660	58,928	1,515,125
Common and Collective Trusts	4,010,479	-	-	4,010,479
Bank Investment Contracts	-	7,803	-	7,803
Guaranteed Investment Contracts	5,664	143,246	-	148,910
Mortgage Backed Securities	588	-	-	558
Other	16,457	1,178	681	18,316
Totals	$ 6,613,979	$ 431,257	$ 113,992	$7,159,228

NOTE 6 - RECEIVABLES

Taxes, federal reimbursements, loans and other receivables are presented in the various funds as follows:

Primary Government - Receivables
June 30, 1998
(Dollars in Thousands)

	Taxes	Due from Other Governments	Loans	Other Receivables	Allowance for Uncollectibles	Net Receivables
General Fund	$ 342,164	$ -	$ 1	$ 34,147	$ (127,510)	$ 248,802
Special Revenue Funds	61,956	157,433	1,322	62,422	(19,253)	263,880
Trust and Agency Funds	-	-	-	11,182	(9,946)	1,236
Internal Service Funds	-	-	-	2,524	(2)	2,522
Enterprise Funds	-	-	9,193	9,072	(2,042)	16,223
Subtotal	404,120	157,433	10,516	119,347	$ (158,753)	532,663
Less: Allowance for uncollectibles	(126,893)	-	(1,855)	(30,005)		-
Net Receivables	$ 277,227	$ 157,433	$ 8,661	$ 89,342		$ 532,663

Component Units - Receivables
June 30, 1998
(Dollars in Thousands)

	Due from Other Governments	Loans and Notes	Principal Payments Receivable	Other Types	Allowance for Uncollectibles	Net Receivables
Maine Health & Higher Education Facilities Authority	$ -	$ 847	$689,073	$ 5,516	$ (435)	$ 695,001
Maine Municipal Bond Bank	-	855,508	-	10,750	-	866,258
Maine State Housing Authority	1,967	1,089,294	-	-	(10,847)	1,080,414
Maine Education Loan Authority	-	37,095	-	412	(287)	37,220
Loring Development Authority	771	-	-	185	-	956
University of Maine System	5,320	36,441	-	13,601	(4,377)	50,985
Maine State Retirement System	9,664	-	-	28,090	-	37,754
Finance Authority of Maine	929	35,304	-	1,281	(73)	37,441
Maine Maritime Academy	-	2,522	-	507	(166)	2,863
Maine Technical College System	-	-	-	2,735	(418)	2,317
Subtotal	18,651	2,057,011	689,073	63,077	$(16,603)	2,811,209
Less: Allowance for Uncollectibles	-	(14,691)	-	(1,912)		-
Net Receivables	$18,651	$ 2,042,320	$689,073	$ 61,165		$2,811,209

NOTE 7 - INTERFUND TRANSACTIONS

Due From/Due to Other Funds and Component Units

Due From Other Funds are amounts owed to one State fund by another for goods sold or services received. Similarly, Due from Component Units are amounts owed to the State by a component unit. The following is a summary of amounts due from and due to other funds and component units:

Primary Government - Due To/Due from Other Funds
June 30, 1998
(Dollars in Thousands)

Fund Type	Due From	Due To	Working Capital Receivable	Working Capital Payable
General Fund	$ 10,469	$ 17,313	$ 1,536	$ -
Special Revenue Fund	15,251	15 517	-	250
Internal Service Fund	8,904	413	-	286
Enterprise Fund	3	1,407	-	1,000
Trust and Agency Funds	23	-	-	-
Total	$ 34,650	$ 34,650	$ 1,536	$ 1,536

Component Units - Due From/Due To
June 30, 1998
(Dollars in Thousands)

	Due From Primary Government	Due To Component Units
Primary Government		
General Fund:		
University of Maine System	$ -	$ 5,048
Maine State Retirement System	-	8,488
Loring Development Authority	-	56
Special Revenue Funds:		
University of Maine System	-	3,942
Maine Technical College System	-	588
Maine State Housing Authority	-	472
Capital Project Funds:		
Maine Municipal Bond Bank	-	2,500
Maine Technical College System	-	262
University of Maine System	-	1,500
Enterprise Funds:		
Finance Authority of Maine	-	1,223
Component Units		
Maine State Housing Authority:		
Special Revenue Funds	472	-
Loring Development Authority		
General Fund	56	
Maine Municipal Bond Bank:		
Capital Project	2,500	-
Finance Authority of Maine:		
Enterprise	1,223	-
Maine Technical College System		
Special Revenue Funds	588	-
Capital Project Funds	262	-
University of Maine System:		
General Fund	5,048	-
Special Revenue	3,942	-
Capital Project Funds	1,500	-
Maine State Retirement System:		
General Fund	8,488	-
Total	$ 24,079	$ 24,079

NOTE 8 - FIXED ASSETS

The following schedule details fixed assets that are not recorded in the General Fixed Assets Account Group:

Summary of Fixed Assets in Proprietary Funds and
Discretely Presented Component Units
June 30, 1998
(Dollars in Thousands)

	Enterprise Funds	Internal Service Funds
Land	$ 1,523	$ 243
Buildings	32,229	6,105
Equipment	40,730	112,672
Improvement other than buildings	350	119
Construction in progress	2,660	-
Less: Accumulated depreciation	(25,208)	(76,142)
Total fixed assets	$ 52,284	$ 42,997

Component Units - Fixed Assets
June 30, 1998
(Dollars in Thousands)

	Totals
Land and Buildings	$ 378,095
Equipment	138,981
Improvements Other Than Buildings	21,582
Assets Under Capital Leases	196
Library Books	3,565
Construction in Process	27,276
Less: Accumulated Depreciation	(207,015)
Total Fixed Assets	$ 362,679

NOTE 9 - MAINE STATE RETIREMENT SYSTEM

Plan Description

The Maine State Retirement System is the administrator of an agent, multiple-employer, defined benefit public employee retirement system established and administered under the Maine State Retirement System Laws, Title 5 M.R.S.A., C. 421, 423, and 425. The System is a component unit of the State. Financial information for the System is included in the discretely presented component unit column on the combined balance sheet and in the statement of changes in net assets available for pension benefits. Condensed financial statement information is presented in Note 14. The Maine State Retirement System issues a stand-alone financial report.

The System provides pension, death, and disability benefits to its members, which include employees of the State, public school employees who are defined by Maine law as teachers for whom the State is the employer for retirement contribution purposes, and employees of approximately 250 local municipalities and other public entities in Maine, each of which contracts for participation in the System under provisions of relevant statutes. At June 30, 1998, the membership consisted of:

Active vested and nonvested members	48,851
Terminated vested participants	1,444
Retirees and benefit recipients	27,873
Total	76,168

The System's retirement programs provide retirement benefits based on members' average final compensation and creditable service. Vesting occurs upon the earning of ten years of service credit or the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age is age 60 or 62, determined by whether the member had at least 10 years of creditable service on June 30, 1993, and the monthly benefit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The system also provides death and disability benefits, which are established by statute for State and public school employees, and by contract with other participating employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits. The annual rate of interest credited to members' accounts is set by the System's Board of Trustees and is currently 6.50 percent.

In the event that a participating entity withdraws from the System, its individual employee-members can terminate membership or remain contributing members. The participating entity remains liable for contributions sufficient to fund benefits for its already retired former employee-members, for its terminated vested members, and for those active employees, whether or not vested, who remain contributing System members.

Retirement benefits are funded by contributions from members and employers and earnings from investments. Disability and death benefits are funded by employer contributions and investment earnings. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the terms of the plan under which a member is covered. Employer contribution rates are determined by annual actuarial valuations.

The total funds managed by the System are constitutionally restricted as held in trust for the payment of pension and related benefits to its members. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs separate actuarial valuations for each participating entity's respective plan. Because there is no legal requirement that any portion of the total assets managed by the System be accumulated and utilized solely for the benefit of certain classes of members or for members who are employees of certain participating entities, the System is regarded as administering a single plan for reporting purposes. Notwithstanding this, each of its participating entities is responsible for the funding of benefits related to that entity.

The System also provides group life insurance under a plan that is administered by a third party insurance company. Premiums paid by or on behalf of those covered are set and collected by the System. Benefit payments are made by the insurance company. The System remits to the insurance company payments in the amount of benefits paid out and additional payments representing administrative fees.

Funding Policy

The Maine Constitution, Maine Statutes and the System's funding policy provide for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate adequate assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over a closed 25-year period from June 30, 1998. For participating local districts, either the level percentage of payroll method or the level dollar method is used, depending on plan structure, status of the participating local district, nature of the unfunded

liability (i.e., separate or pooled) and the amount of the unfunded liability. Amortization periods range from 2 years to 28 years.

The State of Maine is required to remit 25% of its budgetary surplus at the end of its fiscal year to the System, in order to reduce any unfunded pension liability for state employees and teachers. Accordingly, for the year ended June 30, 1998 the System recorded $8,487,572 in additional contributions from the State of Maine, of which $8,487,572 was recorded as due from primary government at June 30, 1998.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension obligation.

The actuarially determined contribution rates in effect for 1998 for participating entities are as follows:

State:	
Employees[1]	7.65-8.65%
Employer	16.39%
Teachers:	
Employees	7.65%
Employer	19.30%
Participating Local Entities:	
Employees	6.5%
Employer[1]	4.7-19%

[1] Contribution rates vary depending on specific terms of plan benefits for certain classes of employees or benefit plan options selected by a particular participating local entity. Withdrawn entities' contributions are set in dollar amounts, not as rates.

By statute, the System maintains separate benefit reserve funds, as well as other reserves the board of trustees designates. At June 30, 1998, the System had the following reserves:

Retirement allowance fund	$4,881,547,693
Member contribution fund	1,269,803,349
Group life reserve	30,605,221
Total	$6,181,956,263

ANNUAL PENSION COST AND NET PENSION OBLIGATION

The employer's annual pension cost and net pension obligation to the System for the current year were as follows:

Net Pension Obligation
(Dollars in thousands)

Annual required contribution	$266,300
Interest on net pension obligation	8,022
Adjustment to annual required contribution	(4,262)
Annual pension cost	270,060
Contributions made	274,788
Increase (decrease) in net pension obligation	(4,728)
Net pension obligation beginning of year	100,274
Net pension obligation end of year	$ 95,546

Analysis of Funding Progress
(Dollars in thousands)

Year	Annual Pension Cost	Percentage Covered	Net Pension Obligation
1998	$ 270,060	101.75%	$ 95,546
1997	$ 253,729	105.57%	$ 100,274
1996	$ 252,210	100.57%	$ 114,399

The annual required contribution for the current year was determined as part of the June 30, 1998 actuarial valuation using the entry age normal cost method based on a level percentage of covered payrolls. The actuarial assumptions included (a) 8% return on investments and (b) projected salary increases of 5.5% to 9.5% per year, including inflation of 5.5%. The assumptions include post retirement benefit increases of 4% per annum. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over a closed 25-year period from June 30, 1998. For participating local districts, either the level percentage of payroll method or the level dollar method is used, depending on plan structure, status of the participating local district, nature of the unfunded liability (i.e., separate or pooled) and the amount of the unfunded liability. Amortization periods range from 2 years to 28 years.

COMPONENT UNIT PENSION DESCRIPTION

The Maine Municipal Bond Bank, Maine Maritime Academy, Maine State Retirement System, University of Maine, and Maine Health and Higher Educational Facilities Authority have defined benefit pension plans. All except the University of Maine System are participants in plans administered by the Maine State Retirement System. Employees of the Maine Technical College System are considered to be State employees for retirement benefit purposes and are included in the pension disclosures of the State.

Employer contributions met actuarially determined contribution requirements.

OTHER PLANS

MTCS also has an optional program with the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), which is a defined contribution plan, to which the MTCS contributes 12.88 percent of total salaries for participating employees.

UM also has a defined contribution program with TIAA-CREF. The University contributes approximately 10 percent of base salary of participants. All full time employees are eligible, and part-time employees are eligible once they have achieved the equivalent of five years of continuous, full-time service. All eligible employees are required to participate in this Plan when they reach thirty years of age.

LDA and FAME have Simplified Employee Pension Plans. MSHA has a defined contribution plan created under the provisions of the Internal Revenue Code Section 401(a).

NOTE 10 - OTHER POST EMPLOYMENT EMPLOYEE BENEFITS

POST RETIREMENT HEALTH CARE BENEFITS

The State of Maine funds health care benefits for most retirees. Pursuant to 5 M.R.S.A., § 285, most retired State employees and Legislators, and retired employees of the Maine Turnpike Authority, the Maine Technical College System, the Maine Maritime Academy, and the Maine State Retirement System are eligible for this benefit.

Specifically excluded (5 M.R.S.A., § 285 1-B) are members of the Maine Municipal Association and the Maine Teachers Association, and employees of counties and municipalities and their instrumentalities.

Effective January 1, 1999, the State will pay 30 percent of health insurance premiums for retired teachers, rather than 25 percent. Benefits for retired teachers are addressed in 20-A M.R.S.A., § 13451 et seq.

The State pays 100 percent of post retirement health insurance premiums for retirees who were first employed before July 1, 1991. A pro rata portion, ranging from zero percent for retirees with less than 5 years participation to 100 percent for retirees with 10 or more years of participation, is paid for eligible individuals first employed after July 1, 1991. Retirees eligible for Medicare are covered under supplemental insurance policies. The retiree must pay for Medicare Part B coverage to be eligible to participate in the State-funded Companion Plan. Coverage for retirees who are not eligible for Medicare includes basic hospitalization, supplemental major medical and prescription drugs, and costs for treatment of mental health, alcoholism, and substance abuse.

Retiree health care benefits have been funded on a pay-as-you go basis. For retired State employees, the State estimated the total amount necessary to pay health insurance premiums. This amount resulted in an employer contribution rate (4.22 percent for the 1998 fiscal year) that is applied against current employee payrolls. The amounts contributed were reported as expenditures/expense in each of the various funds. For retired teachers, the State estimated the total annual amount necessary to pay its 25 percent share of health insurance premiums. This amount, less any accumulated funds remaining from prior years' estimates, is appropriated and reported as expenditures in the General Fund. Contributions resulting from both sources are accumulated in and reported as revenue of the Retiree Health Insurance Internal Service Fund. The State's share of the premium expense is paid from that fund when retiree payrolls are processed. The State's management has proposed funding retiree healthcare benefits using rates which have been developed actuarially beginning in the 2000-2001 biennium.

For the fiscal year ended June 30, 1998, there were 7,257 retired eligible State and Technical College employees and 5,902 retired teachers. In the 1998 fiscal year, the State paid into the Retiree Health Insurance Fund $16.9 million for retired employees and $3.2 million for retired teachers. Premium charges paid were $14.6 million and $2.8 million, respectively. Overall fund equity increased by $4.0 million, to $12.3 million at June 30, 1998.

POST RETIREMENT LIFE INSURANCE BENEFITS

The Maine State Retirement System (MSRS) provides certain life insurance benefits for retirees who, as active employees, participated in the Group Life Insurance Program for a minimum of 10 years. Payments of claims are made by the MSRS from a fund containing a percentage of the life insurance premiums of active State employees and teachers, plus earnings on the investments of the fund. In addition to the cost of claims, the State pays a monthly retention fee to a life insurance company. Retired State employee claims totaled $1.7 million and retired teacher claims totaled $1 million for the fiscal year ended June 30, 1998. The number of participants eligible to receive benefits at fiscal year end cannot be readily determined.

NOTE 11 - DEFERRED COMPENSATION

The State offers its employees a Deferred Compensation Plan created in accordance with Internal Revenue Code § 457. The plan, available to all State employees, permits deferral of a portion of salary until future years. Compensation deferred is not available until the employee retires, resigns, or otherwise leaves State employment.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject only to the claims of the State's general creditors. Participants' rights under the plan are equal to those of the general creditors of the State in an amount equal to the fair market value of the deferred compensation account for each participant.

The financial liability of the State is limited in each instance to the payment of premiums and the purchase of shares under the deferred compensation program while the participant remains an employee of the State, and only to the amount of the compensation or portion of compensation held for payment of such premiums or shares. In the past, plan assets have been used only to pay benefits. The State believes that it is highly unlikely that it will use the assets to satisfy the claims of general creditors.

During fiscal 1997, legislation was enacted at the federal and state levels that, under the provisions of Internal Revenue Code §457, will transfer the ownership and rights to the employee or beneficiary if certain procedures are followed, which include establishing a trust for the assets held in the plan. The State will change the current trust document in fiscal year 1999, at which time it is anticipated that the deferred compensation will not be reported in the State's financial statements.

NOTE 12 - LONG-TERM OBLIGATIONS

PRIMARY GOVERNMENT

The State records its liability for bonds in the General Long-Term Obligations Account Group. Other general long-term obligations recognized by the State are its compensated employee absences and its obligations under Certificates of Participation and other financing arrangements. Payments for these liabilities will be made from the governmental funds.

GENERAL OBLIGATION BONDS

Programs for which the State issues general obligation bonds include: adaptive equipment loan programs, environmental cleanup and protection, highway and transportation related projects, agricultural and small business job creation, and acquisition, construction, and renovation of major capital facilities including state parks and historic sites. General obligation bonds are secured by the full faith and credit of the State. Debt service requirements are provided by legislative appropriation from the State's general tax revenues and are repaid in annual installments beginning not more than one year after issuance.

In June 1998, the State issued $84.5 million of general obligation bonds, $54.5 million of which will be repaid from the General Fund and $30 million of which will be repaid from the Special Revenue Fund.

Changes in general obligation bonds during the fiscal year are as follows:

Primary Government - Changes in General Obligation Bonds
(Dollars in Thousands)

	Balance July 1, 1997	Additions	Retirements	Balance June 30, 1998
General Obligation Debt:				
General Fund	$ 339,620	$ 54,500	$ 56,545	$ 337,575
Special Revenue Fund	149,655	30,000	20,900	158,755
Self Liquidating	811	-	91	720
Total	$ 490,086	$ 84,500	$ 77,536	$ 497,050

The future debt service requirements for the bonds are as follows:

Future Debt Service on General Obligation Bonds
(Dollars in Thousands)

Fiscal Year	Principal	Interest	Total
1999	$ 80,765	$ 26,008	$ 106,773
2000	74,775	21,666	96,441
2001	72,560	17,593	90,153
2002	68,230	13,668	81,898
2003	63,065	9,868	72,933
Thereafter	137,655	18,487	156,142
Total	$ 497,050	$ 107,290	$ 604,340

AUTHORIZED UNISSUED BONDS

Any bonds not issued within five years of the date of ratification may not be issued after that date. Within two years after expiration of the five-year period, the Legislature may extend, by a majority vote, the five-year period for an additional five years or may deauthorize the bonds. If the Legislature fails to take action within those two years, the bond issue shall be considered to be deauthorized and no further bonds may be issued. At June 30, 1998, general obligations bonds authorized and unissued totaled $42.8 million. On June 9, 1998 voters approved an additional $48 million, however the laws underlying this vote were not effective until July of 1998.

BOND AND TAX ANTICIPATION NOTES

During fiscal year 1998, bond anticipation notes (BANs) totaling $46.5 million were issued by the State. Interest rates ranged from 4.00 percent to 6.25 percent. The BANs were issued as a temporary financing vehicle for new projects that were ultimately financed with bond issuance proceeds. The BANs are backed by the full faith and credit of the State. There were no TANs issued during the fiscal year. As of June 30, 1998, there were no BANs or TANs outstanding.

CERTIFICATES OF PARTICIPATION AND OTHER FINANCING ARRANGEMENTS

The State uses financing companies and Certificates of Participation (COPs) to finance the construction of certain State buildings, and to purchase equipment and vehicles. Certificates of Participation are issued through a trustee and the State is responsible for payments to the trustee that approximate the interest and principal payments made to the certificate holders. The State maintains custody and use of the assets; however, the trustee holds a lien as security until such time as the certificates are fully paid. Neither Certificates of Participation nor the other financing arrangements constitute a legal debt or liability, or a contractual obligation in excess of amounts appropriated. The State's obligation to make minimum payments or any other obligation under agreements is subject to, and dependent upon, appropriations being made by the Legislature. The Legislature has no obligation to appropriate the money for future minimum payments or other obligations under any agreement.

Changes in liabilities reported in the General Long-Term Obligations Account Group are as follows:

Changes in General Long-Term Obligations
June 30, 1998
(Dollars in Thousands)

	Bonds	COPs and other Financing Arrangements	Compensated Absences	Net Pension Obligation	Total
Balance, July 1, 1997	$490,086	$6,894	$26,180	$100,274	$623,434
Issuances	84,500	974	-	-	85,474
Payments	77,536	1,731	-	-	79,267
Other Increase (Decrease)	-	-	1,707	(4,728)	(3,021)
Balance, June 30, 1998	$497,050	$6,137	$27,887	$95,546	$626,620

Changes in COPs and Other Financing Arrangements reported in Proprietary Fund Types are as follows:

Certificates of Participation and Other Financing Arrangements
June 30, 1998
(Dollars in Thousands)

Outstanding July 1, 1997	Additions	Retirements	Outstanding June 30, 1998
$19,917	$4,887	$8,583	$16,221

Debt service on COP's and other financing arrangements are presented in the following table:

Debt Service on Certificates of Participation and Other Financing Arrangements
June 30, 1998
(Dollars in Thousands)

	Minimum Payments	
Fiscal Year Ending June 30,	Governmental Funds	Internal Service Funds
1999	$ 2,181	$ 6,700
2000	2,081	7,148
2001	1,940	2,319
2002	216	1,334
2003	182	-
Thereafter	202	-
Total Minimum Payments	$ 6,802	$ 17,500
Less: Amount Representing Interest	665	1,279
Present Value of Future Minimum Payments	$ 6,137	$ 16,221

OBLIGATIONS UNDER CAPITAL LEASES

At June 30, 1998, the State was not able to identify, classify and report capital leases in conformity with generally accepted accounting principles. As such, it is not possible to present the amount of assets recorded under such leases and their accumulated amortization, or disclose the future minimum lease payments at net present value.

Component Units - Bonds outstanding for the component units are as follows:

Component Unit Bonds Outstanding
June 30, 1998
(Dollars in Thousands)

	Purpose	Interest Rates	Amount	Maturity Dates
Maine Municipal Bond Bank	General Tax-Exempt Fund Group	3.00 - 9.75%	$ 813,823	1989 - 2020
	Sewer and Water Fund Group	2.75 - 7.30%	74,352	1991 - 2017
	Special Obligation Taxable Fund Group	6.10 - 10.25%	3,595	1991 - 2009
Subtotal			891,770	
University of Maine System	1993 Series A Revenue Bonds	2.30 - 5.20%	11,705	1994 - 2008
	1993 Series B Refunding Bonds	3.15 - 5.25%	14,295	1995 - 2009
Subtotal			26,000	
Maine State Housing Authority	Mortgage Purchase Program	2.75 - 9.25%	1,149,105	1998 - 2037
	Mortgage Acquisition Program	6.10 -7.15%	15,190	1998 - 2021
	Housing Finance Revenue Program	3.95 - 6.30%	33,043	1997 - 2018
Subtotal			1,197,338	
Maine Health and Higher Education Facilities Authority	General Bond Resolution	4.75 - 7.75%	96,287	1987 - 2021
	Reserve Fund Resolution	2.5 - 7.1%	591,210	1992 – 2028
	Medium Term Financing Reserve Fund Resolution	4.0 - 8.25%	7,255	1993 – 2003
	Taxable Reserve Fund Resolution	7.03 - 9.35%	108,065	1993 – 2016
Subtotal			802,817	
Finance Authority of Maine	Construction bonds	1.0 - 6.29%	1,398	1998 – 2025
Maine Educational Loan Authority	Educational Loan Revenue Bonds	3.95 - 7.75%	55,912	1996 - 2027
Other	Revenue and Building Construction Bonds		3,657	
Total			$2,978,892	

Maturities of principal for component units are as follows. Amounts of principal maturities will not match amounts on the financial statements due to deferred amounts on refunding, and unamortized original issue discount.

Component Units Principal Maturities
June 30, 1998
(Dollars in Thousands)

Fiscal Year Ending June 30 (December 30 for MSHA, MELA)	FAME	MELA	MMA	MTCS	MMBB	UM	MSHA	MHHEFA	Totals
1998	$ -	$ 2,535	$ -	$ -	$ -	$ -	$ 12,140	$ -	$ 14,675
1999	487	2,495	101	85	71,285	1,515	16,900	28,562	120,500
2000	171	2,405	76	85	72,015	1,525	19,820	28,840	124,937
2001	55	2,210	81	85	70,170	1,450	21,875	28,040	123,966
2002	55	2,155	80	85	73,745	1,495	24,245	28,485	130,345
2003	55	-	79	85	64,935	1,455	-	30,160	96,690
Thereafter	575	44,545	2,829	145	566,805	18,560	1,116,580	658,730	2,409,067
Less amounts deferred or unamortized	-	(433)	(157)	-	(27,185)	-	(14,222)	-	(41,687)
Total Principal Payments	$1,398	$55,912	$3,087	$570	$891,770	$26,000	$1,197,338	$802,817	$2,978,893

NOTE 13 - SELF-INSURANCE

A. RISK MANAGEMENT

The State maintains several types of self-insurance plans and accounts for them in an Internal Service Fund. This coverage includes property, vehicle, boat and aircraft, tort, civil rights, employee bonds, and police professionals.

The plan recovers the cost of providing claims servicing and claims payment by charging a premium to each agency based on a review of past losses and estimated losses for the current period. All risk financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claims liabilities are actuarially determined based on estimates of the ultimate cost of claims, including future claim adjustment expenses, that have been incurred but not reported and claims reported but not settled. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount.

Commercial insurance has been purchased for losses that exceed the following limits: buildings, $1 million per occurrence subject to a $2 million annual aggregate, after which a $100,000 per occurrence retention applies; boat hulls, $100,000; aircraft, $50,000; and boat liability, $10,000. Aircraft liability is insured from the first dollar. There is a fund depletion policy that contributes money to the fund when the year's claims exceed $300,000 per occurrence, subject to a $2.5 million aggregate for police professionals, foster parents, vehicle liability, civil rights, and tort.

At June 30, 1998, $3.6 million was reported as the estimated claims payable for the State's self-insurance plan. The discounted amount is $3.1 million and was calculated based on a 6 percent yield on investments.

Risk Management Fund Changes in Claims Payable
June 30, 1998
(Dollars in Thousands)

	1998	1997
Liability at beginning of year	$3,135	$2,179
Current year claims and changes in estimate	1,741	2,403
Claims payments	1,741	1,753
Other Adjustment	-	*306
Liability at end of year	$3,135	$3,135

* Risk management activities were reported in two separate funds in 1996. Component units were not part of the reporting entity in that year; therefore, risk management activities for those agencies were shown separately in an Enterprise Fund and risk management activities for the primary government were reported in an Internal Service Fund. Approximately 95 percent of entities reported in the risk pool are now included as part of the reporting entity. Therefore, from 1997 on the risk management activities will be reported in one Internal Service Fund.

B. UNEMPLOYMENT INSURANCE

The State is self-insured for unemployment compensation. As a direct reimbursement employer, the State recognizes all costs for unemployment compensation as claims are paid. These costs totaled $766 thousand for the fiscal year ended June 30, 1998.

C. Workers' Compensation

Workers' compensation is accounted for in an Internal Service Fund. Interfund premiums are treated as quasi-external transactions. Each State agency is charged a premium based on the number of employees to be covered plus an added amount to reduce the unfunded liability. The Legislature, Legislative Council, and Law Library employees are self-insured for workers' compensation purposes. The State assumes the full risk of all claims filed for workers' compensation.

Annuity contracts have been purchased for the purpose of settling certain claims. Information is insufficient to determine either the amount of the claims liabilities for which annuity contracts have been purchased in the claimant's name, or the amount of the related liabilities that have been removed from the balance sheet.

Changes in the balance of claims and judgments liabilities during fiscal 1998 were as follows:

Workers' Compensation Fund Changes in Claims Payable
June 30, 1998
(Dollars in Thousands)

	1998	**1997**
Liability at Beginning of Year	$ 51,878	$ 50,200
Current Year Claims and Changes in Estimates	50,660	14,468
Claims Payments	(13,093)	(12,790)
Liability at End of Year	$ 89,445	$ 51,878

Based on actuarial calculations as of June 30, 1998, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $102.7 million. The discounted amount is $89.4 million and was calculated based on a 4.25 percent yield on investments.

D. Health Care

The State of Maine's health insurance plan provides insurance coverage for the active employees of the State and several quasi-governmental agencies, including the Maine Technical College System and the Maine Turnpike Authority. The State is insured as a group plan under a policy from a commercial insurer.

Rates were set to generate working premiums totaling $91.5 million, of which the State's share was 93 percent. The contract agreement with Blue Cross/Blue Shield was effective from July 1, 1996 through December 31, 1997. This contract was extended through March 31, 1998. At the end of the contract period the final settlement amount was $2.1 million.

The current contract with Healthsource Maine is effective from April 1, 1998 through March 31, 2000. Under this contract the carrier assumes all risk of any loss.

For the fiscal years 1995 and 1996, contracts were not fully insured and contract settlements exceeded insurance coverage as follows:

Fiscal Year	Cumulative Deficit (Dollars in Millions)
1995	$5.1
1996	$0.6

Medicare contributions have been required for all employees hired since April 1986.

E. DISABILITY

State law allows confidential employees who become temporarily disabled to receive 66.67 percent of their salary for up to 335 calendar days. There were a total of 1022 confidential employees at June 30, 1998. The expenditure amount for this benefit cannot be determined.

NOTE 14 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS AND COMPONENT UNITS

PRIMARY GOVERNMENT

The State has nine enterprise funds that have been created to provide various services to the general public and are described below:

The *Alcoholic Beverages Fund* was established to license and regulate the sale of alcoholic beverages. The net profit from the fund is transferred to the State's General Fund and is used for general government purposes.

The *Lottery Fund* was established to account for all operations of the Maine State Lottery. This includes the Tri-State Lotto Commission, which was established in 1985, and is a joint venture between the states of Maine, New Hampshire, and Vermont. The Commission is authorized and empowered to promulgate rules and regulations regarding the conduct of lottery games, including the price or prices of tickets, the number and size of prizes for winning tickets, and the licensing of agents.

The *Potato Marketing Improvement Fund* provides low interest loans to potato growers for the modernization of storage facilities and improvements in the handling of the product.

The *Seed Potato Board Fund* accounts for the growing of nuclear seed for sale to potato growers, for research in disease control, and the development of new product varieties.

The *State Ferry Service* Fund accounts for the operation of ferry services between the mainland and various islands for the purpose of transporting vehicles, freight, and passengers to and from those islands.

The *State Airport Fund* accounts for all operations and maintenance of the Maine State Airport. The State, through the Department of Transportation, entered into a lease/purchase agreement with the City of Augusta to operate and eventually own the airport.

The *Marine Ports Fund* is used to account for the operation and maintenance of port facilities within the jurisdiction of the Department of Transportation.

The *Prison Industries Fund* accounts for a self-supporting program of job training through the employment of inmates in manufacturing and selling products.

The *Community Industrial Building Fund* is used to assist a local development corporation to construct a community industrial building by loaning money when the project can reasonably be expected to create new employment. Preference is given to projects in economically deprived areas.

Segment Information
June 30, 1998
(Dollars in Thousands)

	State Lottery Bureau	Bureau of Alcoholic Beverages	Transportation Related	Agriculture Related	Other Enterprise Funds	Total Enterprise Funds
Operating Revenues	$ 151,961	$ 70,655	$ 2,922	$ 296	$ 923	$ 226,757
Depreciation Expense	12	65	3,151	63	12	3,303
Operating Income (Loss)	40,988	22,030	(4,643)	(1,335)	(87)	56,953
Net Nonoperating Revenues	876	-	103	561	16	1,556
Net Income (Loss)	16	(110)	(2,083)	(389)	(170)	(2,736)
Operating Transfers in (out)	(41,847)	(22,140)	2,457	387	(100)	(61,245)
Additions (Deletions) to Property, Plant and Equipment	(25)	528	635	-	(27)	1,111
Total Assets	8,619	6,744	52,524	10,148	618	78,653
Total Long-Term Liabilities	-	1,000	-	-	-	1,000
Total Liabilities	8,603	6,854	364	1,310	92	17,223
Total Equity	16	(110)	52,160	8,839	525	61,430
Net Working Capital	(44)	152	1,617	607	477	2,809
Current Capital Contributions	-	-	822	-	-	822

COMPONENT UNITS

The following tables present condensed financial statements for each of the discretely presented component units. Complete financial statements of the individual component units can be obtained from their respective administrative offices as described in Note 1.

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Component Units Condensed Balance Sheet
June 30, 1998
(Dollars in Thousands)

	LDA	MELA	FAME	MHHEFA	MSHA	MMBB	MSRS	MMA	MTCS	U of ME	Total
Assets:											
Cash	$ 1,710	$ 1,829	$ 50,006	$ 109,373	$ 209,365	$ 217	$ 347,558	$ 149	$ 2,417	$ 59,875	$ 782,499
Investments	-	18,048	20,078	212,278	110,337	191,614	5,846,108	13,618	12,023	82,502	6,506,606
Due from primary government	56	-	1,223	-	472	2,500	8,488	-	850	10,490	24,079
Due from other governments	771	-	929	-	1,967	-	9,664	-	-	5,320	18,651
Loans and notes receivable	-	36,808	35,231	628	1,078,447	855,508	-	2,377	-	33,321	2,042,320
Other receivables	185	412	1,281	694,373	-	10,750	28,090	485	2,319	12,343	750,238
Fixed assets	73	-	299	5,098	829	1,102	1,142	37,775	60,491	255,870	362,679
Other assets	1	272	14	11,061	20,349	43,976	-	5,282	869	9,337	91,161
Total assets	$ 2,796	$57,369	$109,061	$ 1,032,811	$1,421,766	$1,105,667	$ 6,241,050	$59,686	$ 78,969	$ 469,058	$ 10,578,233
Liabilities:											
Accounts payable	102	25	1,759	925	1,425	1,340	52,306	423	1,329	8,888	68,522
Due to other governments	1,473	-	-	-	3,939	2,644	-	-	-		8,056
Deferred revenues	172	-	5,105	118	30,643	-	-	211	604	8,206	45,059
Amounts held under state loan programs	-	-	62,061	-	-	-	-	-	-		62,061
Bonds and notes payable	-	55,912	10,098	802,817	1,197,338	891,770	-	3,087	570	26,000	2,987,592
Other accrued liabilities	177	1,338	12,589	31,738	29,229	19,659	6,788	2,871	10,374	33,353	148,116
Total Liabilities	1,924	57,275	91,612	835,598	1,262,574	915,413	59,094	6,592	12,877	76,447	3,319,406
Equity:											
Retained Earnings:											
Reserved	-	-	1,608	-	153,426	4,671	-	-	-	-	159,705
Unreserved	872	94	15,841	4,483	5,766	185,583	-	-	-	-	212,639
Reserved for debt service	-	-	-	107,801	-	-	-	-	-	832	108,633
Net investment in plant	-	-	-	-	-	-	-	34,633	55,247	207,896	297,776
Reserved for pension benefits	-	-	-	-	-	-	6,181,956	-	-	-	6,181,956
Other reservation	-	-	-	84,929	-	-	-	11,248	2,535	179,300	278,012
Unrestricted/unreserved	-	-	-	-	-	-	-	7,213	8,310	4,583	20,106
Total Equity	872	94	17,449	197,213	159,192	190,254	6,181,956	53,094	66,092	392,611	7,258,827
Total Liabilities and Equity	$ 2,796	$57,369	$ 109,061	$ 1,032,811	$ 1,421,766	$ 1,105,667	$ 6,241,050	$ 59,686	$ 78,969	$ 469,058	$10,578,233

Component Unit Statement of Revenues, Expenses, and Changes in Fund Balance Equity

June 30, 1998

(Dollars in Thousands)

	LDA	MELA	FAME	MSHA	MMBB	Total
Operating revenues	$ 4,526	$ 4,510	$ 27,342	$ 173,580	$ 83,930	$ 293,888
Operating expenses	4,652	4,103	33,523	165,138	52,826	260,242
Operating income (loss)	(126)	407	(6,181)	8,442	31,104	33,646
Non-operating revenues (expenses)	-	-	(8,212)	1,471	-	(6,741)
Extraordinary Loss	-	(19)	-	(512)	-	(531)
Transfers from primary government	382	-	9,793	5,909	4,900	20,984
Net income (loss)	256	388	(4,600)	15,310	36,004	47,358
Retained Earnings, July 1, 1997 (as restated)	615	(293)	22,045	143,883	154,249	320,499
Retained Earnings, June 30, 1998	$ 871	$ 95	$ 17,445	$ 159,193	$ 190,253	$ 367,857

NOTE 15 - JOINT VENTURES

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose. The only material joint venture in which the State participates is the Tri-State Lotto Commission.

The Tri-State Lotto Commission (Commission) was established in 1985 pursuant to passage into law of the Tri-State Lotto Compact by the States of Maine, New Hampshire, and Vermont. The Commission is authorized and empowered to promulgate rules and regulations regarding the conduct of lottery games, including ticket prices, prizes, and the licensing of agents.

The Commission is composed of one member from each of the participating states. Each member state's commission appoints one of its members to serve on the Commission. Each member holds office at the pleasure of his or her appointing authority. The Commission annually elects a chairman from among its members.

The Commission has designated that 50 percent of its operating revenue be aggregated in a common prize pool. A prize award liability is established when the winning ticket number is selected. If no winning ticket is selected, the available jackpot is carried over to the following drawing. The Tri-State Lotto Compact requires that prizes not claimed within one year from the date of the drawing be forfeited. All unclaimed prizes are credited to future prize pools. The Commission funds its jackpots through annuity contracts purchased from insurance companies and zero-coupon U.S. Government Treasury Strips.

A proportional share of revenues and expenses are allocated to each State based on the amount of ticket sales made by each State. Exceptions are the facility's management fee, which is based on a contracted percentage of operating revenue that varies from state to state, Daily Number expenses that are allocated to each State based on Daily Number ticket sales, and certain other miscellaneous costs that are based on actual charges generated by each state.

The financial statements of the Tri-State Lotto Commission may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333.

As of and for the year ended June 30, 1998, the following selected financial information was reported in the audited financial statements of the Tri-State Lotto Commission:

Tri-State Lotto Commission
June 30, 1998
(Dollars in Thousands)

Current Assets	$	39,558
Noncurrent Assets		233,839
Total Assets	$	273,397
Current Liabilities	$	34,784
Long-term Liabilities		213,176
Total Liabilities		247,960
Designated Prize Reserves		4,995
Unrealized Gain on Investments Held for Installment Prize Obligations		20,442
Total Retained Earnings		25,437
Total Liabilities and Retained Earnings	$	273,397
Total Revenue	$	87,190
Total Expenses	$	56,573
Allocation of Funds to Member States	$	31,199
Increase in Retained Earnings	$	10,997

NOTE 16 - RELATED PARTY TRANSACTIONS

PRIMARY GOVERNMENT

The State receives transfers in the amount of the annual operating surplus from the Maine Turnpike Authority under the Sensible Transportation Act of 1991. The Legislature has defined operating surplus within the Maine Turnpike Authority Statute to be the total operating revenues of the Authority after money has been set aside to pay reasonable operating expenses and to meet the requirements of any resolution authorizing bonds. The Authority, with the concurrence of the Maine Department of Transportation, has established the operating surplus at $4.7 million annually. The payment of debt service costs in connection with the issuance of the Series 1996 Special Obligation Bonds is considered to constitute payment of the operating surplus for the year 1998.

General Obligation Bonds of the State includes $720,000 of self-liquidating bonds of the Maine Veteran's Home. The State issues the bonds and the Maine Veteran's Home remits to the State the debt service as it comes due.

Maine Science and Technology Foundation and the Maine School of Science and Mathematics, related organizations, received appropriations of $3.2 million and $1.6 million, respectively.

COMPONENT UNIT

The University of Maine Foundation (the "Foundation") is an independent non-profit organization and, accordingly, its financial statements are not consolidated with those of the University. Total gifts and income received by the University from the Foundation during fiscal years ending June 30, 1998 and 1997 were approximately $2.5 million and $2.1 million, respectively. The reported fair market value of the Foundation's assets at June 30, 1998 and 1997 was approximately $86.9 million and $74.0 million, respectively.

The Maine Educational Loan Authority (Authority) acts as an originating lender for a federal loan program for loans ultimately sold to the Maine Educational Loan Marketing Corporation, a related party. The funds necessary to originate the loans are made available to the Authority by Maine Educational Services through advances under a revolving credit agreement. The funds are advanced normally for a one day period. The educational loans are sold

at face value plus a fifty basis point premium. In 1997 and 1996, approximately $49.6 million and $50.7 million, respectively, of educational loans were originated by the Authority and purchased by MELMAC as described above. The Authority received approximately $248,000 and $254,000 in 1997 and 1996, respectively, in loan premiums from MELMAC.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

FEDERAL GRANTS

The State receives significant financial assistance from the federal government. The receipt of grants is generally dependent upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Grants are subject to the Federal Single Audit Act. Disallowances by federal officials as a result of these audits may become liabilities of the State. The amount of expenditures that may be disallowed by the grantor agencies cannot be determined at this time.

MUNICIPAL SOLID WASTE LANDFILLS

Title 38 M.R.S.A., § 1310-F, establishes within the Department of Environmental Protection (DEP) a cost-sharing program for the closure and remediation of solid waste landfills that pose an actual or potential hazard to the environment and public health. The State's obligation to provide cost sharing to municipalities is subject to the availability of general obligation bond funds approved for that purpose. After January 1, 2000, the State will not be liable for the costs relating to the post closure and closure of landfills, unless these costs are specifically identified in an agreement and approved by DEP prior to January 1, 2000.

During the 1998 fiscal year, $3.9 million of general obligation bond funds were expended for solid waste landfill closure projects. At June 30, 1998, DEP estimates the State’s share of future costs relating to the postclosure and closure of landfills to be $4.3 million.

SAND AND SALT STORAGE PROGRAM

The State estimates the potential aggregate cost to comply with the environmental requirements associated with the sand and salt storage program to be $35-45 million through the year 2003. This consists of approximately $15-20 million for State owned facilities and $20-25 million for the State’s share, under a cost sharing arrangement, for municipal facilities. The amount of the potential commitment may be less, if the legislature enacts statutory changes to the program.

CONSTRUCTION COMMITMENTS

A portion of the payment that is made to municipalities for General Purpose Aid to Local Schools is allocated for debt service. This portion represents the subsidy for debt service resulting from local outstanding indebtedness for school construction and renovation projects. As of June 30, 1998, outstanding commitments by municipalities for school bond issues that are eligible for state subsidy totaled $696.8 million.

At June 30, 1998, the Department of Transportation had contractual commitments of approximately $107 million for construction of various highway projects. The State’s share of that amount is expected to be approximately $21 million. Funding for these future expenditures is expected to be provided from federal funds, State funds, and bond proceeds.

Title 38 M.R.S.A. §411 establishes within DEP a cost-sharing program for pollution abatement projects. Subject to funding by the legislature and the approval of the Commissioner, the State may contribute to the design, engineering and construction of municipal pollution abatement facilities. During the 1998 fiscal year, $5.4 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 1998 the State’s contractual commitment for pollution abatement projects totaled $13 million. DEP estimates the total cost (federal,

State, and local) of future projects to be $287 million. At June 30, 1998, general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $11.7 million.

TREATMENT OF WASTEWATER FROM THE STATE'S CORRECTIONAL FACILITIES

At June 30, 1998, the Department of Corrections (DOC) had a contractual commitment with the Warren Sanitary District to provide treatment of wastewater from the State's correctional facilities located in Warren, Maine. Under the terms of the agreement, the DOC is required to make annual payments to the District for the DOC's prorated share of capital costs, debt service, and operation and maintenance costs. Fiscal year 1998 expenditures totaled $359,156. The agreement with the District shall be in effect for as long as the DOC uses the wastewater treatment facility. If the DOC ceases its use, the agreement is in effect until (a) the DOC has paid off its share of the local capital costs of the project and (b) another user acceptable to the Warren Sanitary District assumes the DOC's share of the operations and maintenance costs.

CONTINGENT RECEIVABLE

At June 30, 1998, the Maine Department of Transportation (MDOT) had unreimbursed expenditures paid from the Highway Fund in fiscal years 1998 and prior. Based on historical experience, these expenditures are potentially reimbursable, in part, by the federal highway program through project modifications. The MDOT has not determined the probability or estimated the amount of any reimbursement.

CONSTITUTIONAL OBLIGATIONS

Article 9, § 14-A, of the Maine State Constitution provides that the State may insure the payment of mortgage loans on real estate and personal property within the State for industrial, manufacturing, fishing, agricultural and recreational enterprises. The aggregate of these obligations may not exceed $90 million at any one time. As of June 30, 1998, $48.1 million was committed pursuant to this authorization.

Article 9, § 14-C, of the Maine State Constitution provides that the State may insure the payment of mortgage loans for the acquisition, construction, repair and remodeling of houses owned or to be owned by members of two tribes on several Indian reservations. These loans may not exceed $1 million in the aggregate at any one time. As of June 30, 1997, $63,000 was committed pursuant to this authorization.

Article 9, § 14-D, of the Maine State Constitution provides that the State may insure the payment of any mortgage loan to resident Maine veterans of the Armed Forces of the United States, including loans to a business organization owned in whole or in part by a resident Maine veteran. These loans may not exceed $4 million in the aggregate at any one time. As of June 30, 1998, $1.3 million was committed pursuant to this authorization.

Article 8, § 2, of the Maine State Constitution provides that the State may secure funds, through the issuance of bonds authorized by the Governor, for loans to Maine students attending institutions of higher education. The amount of bonds issued and outstanding shall not at any one time exceed $4 million in the aggregate. As of June 30, 1998, there were no amounts issued pursuant to these authorizations.

MORAL OBLIGATIONS

The State of Maine, through statute, enables certain authorities to establish capital reserve funds. These funds may be used to secure a variety of financial undertakings including the issuance of bonds. The minimum amount of the capital reserve fund may be determined by statute or set by the authority. The statutes may also limit the amount of debt that may be secured by the capital reserve funds, and allow the authority to issue debt that is not secured by these funds. On or before December first of each year, the authority is required to certify to the governor the amount, if any, necessary to restore any capital reserve fund to its required minimum. If there is a shortfall, the governor is required to pay first from the "Contingent Account" the amounts necessary for restoration. The governor shall certify any remaining unpaid amounts to the legislature, which is then required to appropriate and pay the remaining amounts to the authority during the then current state fiscal year. These moral obligations are

not considered to be "full faith and credit" obligations, and voter approval of the underlying bonds is not required. No capital reserve fund restorations have been made in the current or previous years.
The following summarizes information regarding Moral Obligations as of June 30, 1998.

Moral Obligation Bonds
June 30, 1998
(Dollars in Thousands)

Issuer	Bonds Outstanding	Required Debt Reserve	Obligation Debt Limit	Legal Citation
Finance Authority of Maine	$ 283,322	$ 36,441	$757,000	10 MRSA § 1032, 1053
Maine Educational Loan Authority	37,285	2,379	50,000	20-A MRSA § 11424
Maine Municipal Bond Bank	918,955	107,753	No Limit	30-A MRSA § 6006
Maine Health and Higher Education Facilities Authority	706,530	54,300	No Limit	22 MRSA § 2075
Loring Development Authority	-	-	100,000	5 MRSA § 13080-N
Maine State Housing Authority	1,231,568	87,251	1,650,000	30-A MRSA § 4906
Total	$3,177,660	$288,124		

NOTE 18 - LITIGATION

The State of Maine, its units and employees are parties to numerous legal proceedings, many of which normally occur, in governmental operations. In the opinion of the Attorney General and other legal counsel representing the State, in all of the cases listed, except in the Consent Decrees and the allocation of pension costs, the State or its agencies or employees have valid defenses, and that, even if liability is found, the damages awarded will be far less than the amounts sought. Other than the pension case, the Attorney General is unaware of any case in which it is both probable that the State will incur liability and that the amount of such liability can be reasonably estimated to exceed $1 million. In any given case, however, it is possible that the State could incur a large judgment against it.

Bates v. Peet, et al., is a class action suit that was settled in 1990 by a Consent Decree, applicable to the mental health and mental retardation services provided by the Department of Mental Health and Mental Retardation. On September 7, 1994, the Superior Court found the defendants in contempt for their failure to live up to certain of the obligations contained in the Decree. On March 8, 1996, the Court found that the defendants had not purged themselves of the contempt previously found in the September 1994 order. A receivership was imposed but was stayed on condition that the defendants complied with further milestones by October 31, 1996. On February 8, 1997, the Court determined that the defendants had substantially complied with the term of the March 8, 1996, order and therefore purged themselves of civil contempt. However, the defendants remain under the obligations of the underlying Consent Decree, which may result in costs to the State that cannot be determined at this time.

Consumer Advisory Board, et al., v. Glover was the Consent Decree entered into September 28, 1994. This is the former Pineland Consent Decree and is now officially called the Community Consent Decree. The Department of Mental Health, Mental Retardation and Substance Abuse Services filed a motion to terminate the consent decree in July of 1998, and the parties are now engaged in negotiations to attempt to bring about a negotiated end to this 20-year old decree. There remains some hope that by the summer of 1999, the U.S. District Court will hand down an order terminating this case, though possibly with several conditions. It is possible that additional funds could be required as a result of further court orders.

New Hampshire v. Maine. The Attorney General has advised us that the State of New Hampshire is preparing to file a lawsuit in the U.S. Supreme Court contending that the Kittery Shipyard is actually located in New Hampshire. The Attorney General believes that if such a suit is filed, the State of Maine will prevail.

State of Maine v. Shalala On May 5, 1998, the HHS Departmental Appeals Board ruled against the State on its appeal with respect to the proper allocation of pension contribution costs between the state and federal government. This will cost the State approximately $7 million. The state has filed an appeal in the U.S. District Court. As the scope of review is narrow, the possibility of success on appeal is limited.

Alden v. State This case involves claims by probation officers against the State for violations of the federal Fair Labor Standards Act. The State has successfully defended this suit in state and federal court but it is now before the Supreme Court of the United States, scheduled to be argued in March of 1999. The outstanding claims, interest and attorney fees would be well over $1 million. Observers of the Supreme Court view this as a close case in view of the 11th amendment implications.

There are also numerous workers' compensation claims now pending against various State agencies. Since most claims involve the possibility for significant long-term damages, and since the test for demonstrating a causal relationship between the employment and the illness or injury is not as rigorous as in ordinary civil cases, these cases involve the possibility of significant liability for the State. Since possible damages include future medical costs and wage replacements for the employee (and in some cases spouse), it is difficult to estimate the total potential liability to the State.

All other legal proceedings are not, in the opinion of management after consultation with the Attorney General, likely to have a material adverse effect on the financial position of the State.

NOTE 19 - SUBSEQUENT EVENTS

PRIMARY GOVERNMENT

Subsequent to June 30, 1998, the State issued $39.4 million of bond anticipation notes with interest rates ranging from 3.5 percent to 5.5 percent.

In July1998, the State entered into a lease financing arrangement for the purchase of a mainframe and fleet vehicles. Both are recorded in Internal Service Funds. The amount financed was $3.0 million.

On November 23, 1998, Maine along with 49 other states and jurisdictions agreed to an out of court settlement with certain Participating Tobacco Manufacturers (PMs) to recover smoking related Medicaid costs. The PMs agreed to pay $206 billion to the 50 states. In return, the states have agreed to relinquish claims to further damages resulting from Medicaid costs. Maine's percentage of the total settlement payment is 0.7693505%, which equals $1.58 billion. Annual payments (2000 and thereafter) will fluctuate subject to various adjustments and litigation offsets and are contingent on the passage and enforcement of a state statute imposing economic conditions on the PMs. This settlement should result in an ongoing revenue stream to the State, which will continue into perpetuity. The Federal government may claim two thirds of all of the states' settlement payments to recover their share of costs previously paid by Medicaid for tobacco related illnesses.

As compensation, the PMs have also agreed to pay $8.6 billion to the 50 states and jurisdictions for their contribution to the overall settlement. These payments are subject to the adjustments referred to above. Maine's share equals approximately $114 million and will be received in ten annual payments beginning in 2008.

COMPONENT UNITS

On August 15, 1998, the Maine Municipal Bond Bank issued $4,795,000 of 1998 Series A Sewer and Water Revenue Bonds – Drinking Water Program. The bonds mature between 1999 – 2028, and carry interest rates ranging from 3.65% to 5.20%.

The Maine Governmental Facilities Authority entered into a $25,000,000 revolving credit agreement with State Street Bank and Trust Company (the Bank) on October 30, 1998. Under the Agreement, subject to restrictions, the Authority may borrow to provide interim financing for the acquisition, construction, improvement, reconstruction and equipping of structures or facilities for use by the judicial, legislative or executive branches of the State government and related entities. Interest on advanced amounts up to $3,000,000 is payable monthly at the Bond Market Association index plus 0.75%. The agreement is subject to renewal on October 19, 1999.

On July 9, 1998, the Maine Health and Higher Education Facilities Authority issued $100,540,000 of 1998 Series B Revenue Bonds. The bonds mature between 1999 – 2028, and carry interest rates ranging from 3.70% to 5.00%.

On March 4, 1998, the Maine State Housing Authority issued $55,000,000 in 1998 Series A and B bonds. The bonds mature between 2003 – 2038, and carry interest rates ranging from 4.25% to 6.94%.

NOTE 20 - ACCOUNTING CHANGES

In fiscal year 1998, the State of Maine adopted Governmental Accounting Standard Board (GASB) Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.*

For the fiscal year ended June 30, 1998, the State of Maine adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information – Year 2000 Disclosure

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the government's operations as early as fiscal year 1999.

The State of Maine has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting state operations. The state has identified the following systems requiring year 2000 remediation:

	In Process or Completed				
Systems	Awareness	Assessment	Remediation	Validation & Testing	Contracted Amounts as of June 30,1998
MFASIS - Accounting				✔	$790,000
MFASIS - Human Resources			✔		$172,800
MFASIS - Warehouse			✔		$139,000
Lottery - Instant Tickets		✔			
Lottery - Online		✔			
BIS Network Services	✔				
Voice System	✔				
BIS Bull System			✔		$1,930,838
BIS IBM System				✔	$46,000
BIS COMTEN			✔		
Budget System			✔		$130,000
Revenue Services - MATS			✔		$450,000
Education - GPA				✔	
Education - School Nutrition			✔		
Education - Special Education			✔		
Human Services - WELFRE/MMIS/CCOLC			✔		$2,900,000
Human Services - NECSES			✔		$1,200,000
Human Services - WIC			✔		$700,000
Labor - Benefits Payment System			✔		$2,232,888
Labor - DOLARS			✔		
Public Safety - Message Switch			✔		
Transportation - Promis			✔		$130,000

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the State of Maine is or will be Year 2000 ready, that the State of Maine's remediation efforts will be successful in whole or in part, or that parties with whom the State of Maine does business will be Year 2000 ready.

Required Supplementary Information – State Retirement Plan

Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value Of Assets	(b) Actuarial Accrued liability (AAL) – Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
June 30, 1998	$4,325,864,097	$6,706,620,152	$2,380,756,055	64.5%	$1,165,614,285	204.2%
June 30, 1997	3,678,447,543	6,223,290,581	2,544,843,038	59.1%	1,123,165,516	226.6%
June 30, 1996	3,152,547,745	5,978,879,213	2,826,331,468	52.7%	1,184,390,280	238.6%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
1998	$237,246,612	$245,734,184	103.6%
1997	216,474,520	235,001,023	108.6%
1996	215,121,717	221,121,717	102.8%

Required Supplementary Information – Participating Local District Plan

Schedule of Funding Progress

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation Date	**Actuarial Value Of Assets**	**Actuarial Accrued liability (AAL) – Entry Age**	**Unfunded AAL (UAAL)**	**Funded Ratio**	**Annual Covered Payroll**	**UAAL (as a percentage of covered payroll)**
June 30, 1998	$1,066,810,947	$1,147,652,930	$80,841,983	93.0%	$223,525,533	36.2%
June 30, 1997	924,525,993	1,068,530,453	144,004,460	86.5%	218,447,415	65.9%
June 30, 1996	806,819,972	1,006,597,165	199,777,193	80.2%	132,071,920	151.3%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
1998	$29,053,376	$29,053,376	100.0%
1997	32,852,635	32,852,635	100.0%
1996	32,525,079	32,525,079	100.0%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Basis of Presentation

For financial statement reporting purposes, the information provided on the required supplementary information schedules includes amounts for employees of participating local districts as well as combined amounts for state employees, teachers, judicial and legislative employees.

Actuarial Assumptions and Methods:

The information in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation date, June 30, 1998, is as follows:

Funding Method

Costs are developed using the entry age normal cost method (based on a level percentage of covered payroll). Under this method the accrued liability and the present value of future normal costs are determined by summing the individual entry age results for each participant. The normal cost is then determined in aggregate by spreading the present value of future normal costs as a level percentage of expected future covered payroll. Entry age is defined as the first day service is credited under the plan.

Experience gains and losses, i.e., decreases or increases in liabilities when actual experience differs from the actuarial assumptions, adjust the unfunded actuarial accrued liability.

Asset Valuation Method

For actuarial purposes, assets are valued by determining the total yield on the investments of the System using the full investment return (including capital gains), which is measured by the difference in the actuarial value of the assets at the beginning of the fiscal year and the market value of the assets at the end of the fiscal year. Prior year's unrecognized gains and losses are added to this amount to develop expected actuarial value. One third of the excess of the yield (using the full investment return) is added to the expected actuarial value to determine the actuarial valuation of assets.

Amortization

The unfunded actuarial liability is amortized on a level percentage of payroll over a legislatively-enacted 25 year closed period from June 30, 1998.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 1998 are as follows:

Investment Return – 8% per annum, compounded annually

Salary Increases – 5.5% to 9.5% per year (included inflation of 5.5%)

Mortality Rates – Active State employee members and active participating local entity members – UP 1994 Tables; Active teacher members – 85% of UP 1994 Tables; Non-disabled State employee retirees and non-disabled participating local entity retirees – GAM 1971 Tables; Non-disabled teacher retireees – GAM 1971 Tables set back two years; All current recipients of disability benefits – 1964 Commissioners Disability Table; All disability benefit recipients who begin to receive benefits in 1998 and thereafter – RPA 1994 Table for pre-1995 Disabilites.

Post Retirement Benefit Increases – 4% per annum

Group Life Plan:

The Group Life Insurance Program administered by the System provides for a life insurance benefit for active members equal to a member's annual base compensation as defined by statute. Upon retirement, life insurance coverage in the amount of the member's average final compensation is provided with a reduction of 15% per year until the greater of 40% of the average final compensation of $2,500 is reached. To be covered in retirement, retirees must have participated in the Group Life Program for a minimum of ten years. Premiums are remitted to the System by the employer. The State pays a premium rate of $0.30 per $1,000 of coverage per month for state employees. Teachers and employees of participating local districts pay a premium rate of $0.22 and $0.46 per $1,000 of coverage per month, respectively, some or all of which may be deducted from employees' compensation as per individual agreements with employees. Assumptions used to determine the actuarial liability are the same as for the pension plan. At June 30, 1998 and 1997, the plan had the following actuarially determined liabilities:

	(In millions)	
	1998	**1997**
Actuarial Liabilities:		
Active Members	$ 42.6	$ 37.8
Retired Members	36.4	38.7
Total	$ 79.0	$ 76.5

STATE OF MAINE
DEPARTMENT OF AUDIT
66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

TEL: (207) 624-6250
FAX: (207) 624-6273

GAIL M. CHASE, CIA
STATE AUDITOR

RICHARD H. FOOTE, CPA
DEPUTY STATE AUDITOR
CAROL A. LEHTO CPA, CIA
DIRECTOR OF AUDITS
MICHAEL J. POULIN, CIA
DIRECTOR OF AUDITS

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the President of the Senate and the
Speaker of the House of Representatives

We have audited the financial statements of the State of Maine, as of and for the year ended June 30, 1998, and have issued our qualified report thereon dated March 31, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Maine Educational Loan Authority, the Maine Governmental Facilities Authority, and the Maine Health and Higher Education Facilities Authority were not audited in accordance with *Government Auditing Standards*.

Compliance

As part of obtaining reasonable assurance about whether the State of Maine's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We also noted certain immaterial instances of noncompliance, which we have reported to management of the State of Maine in a separate letter dated July 30, 1999.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Maine's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Maine's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions

are described in the accompanying schedule of findings and questioned costs as items 98-01 through 98-11.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 98-01, 98-02 and 98-03 to be material weaknesses. We also noted other matters involving the internal control over financial reporting which we have reported to management of the State of Maine in a separate letter dated July 30, 1999.

This report is intended solely for the information and use of management, the Legislature and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gail M. Chase, CIA
State Auditor

March 31,1999

STATE OF MAINE
DEPARTMENT OF AUDIT
66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

TEL: (207) 624-6250
FAX: (207) 624-6273

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

To the President of the Senate and the
Speaker of the House of Representatives

<u>Compliance</u>

We have audited the compliance of the State of Maine with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1998. The State of Maine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Maine's management. Our responsibility is to express an opinion on the State of Maine's compliance based on our audit.

The State of Maine's general-purpose financial statements include the operations of the following component units: the Maine State Retirement System, the Maine Technical College System, the University of Maine System, the Maine Maritime Academy, the Finance Authority of Maine, the Maine State Housing Authority, the Maine Educational Loan Authority, the Loring Development Authority, the Maine Governmental Facilities Authority, the Maine Health and Higher Education Facilities Authority and the Maine Municipal Bond Bank. The federal awards that these component units received are not included in the supplementary *Schedule of Expenditures of Federal Awards* for the year ended June 30, 1998. Our audit, described below, did not include the operations of these component units because the component units engaged other auditors.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Maine's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe

that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Maine's compliance with those requirements.

In our opinion, the State of Maine complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1998. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 98-12, 98-16, 98-19, 98-21 through 98-25, 98-29, 98-30, 98-32, 98-37, 98-39, 98-42, and 98-48.

Internal Control Over Compliance

The management of the State of Maine is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Maine's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Maine's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 98-13 through 98-15, 98-17, 98-18, 98-20, 98-26 through 98-28, 98-31, 98-33 through 98-36, 98-38, 98-40, 98-41, and 98-43 through 98-47.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of the State of Maine as of and for the year ended June 30, 1998, and have issued our qualified report thereon dated March 31, 1999. Our audit was performed for the purpose of forming an opinion on the general-purpose financial

statements taken as a whole. The accompanying *Schedule of Expenditures of Federal Awards* is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

This report is intended for the information and use of management, the Legislature and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gail M. Chase, CIA
State Auditor

July 30, 1999
(Except for the *Schedule of Expenditures of Federal Awards* as to which the date is March 31, 1999)

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State of Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1998

Federal Department Major Sub-Divison	Federal Catalog Number	Program Title	State Agency	Expenditures 1998
U.S. Department of Agriculture				
Direct Federal Programs				
Animal & Plant Health Inspection Service	10.025	Plant and Animal Disease, Pest Control and Animal Care	Agriculture	23,484
Animal & Plant Health Inspection Service	10.025	Plant and Animal Disease, Pest Control and Animal Care	Conservation	3,989
Agricultural Marketing Service	10.162	Inspection Grading and Standardization	Agriculture	439,783
Food & Nutrition Service	**10.557**	**Special Supplemental Nutrition Program for W.I.C.**	**Human Services**	**12,624,165**
Food & Nutrition Service	10.558	Child Care and Adult Care Food Program	Human Services	10,186,136
Food & Nutrition Service	10.560	State Administrative Expenses for Child Nutrition	Human Services	228,113
Food & Nutrition Service	10.560	State Administrative Expenses for Child Nutrition	Education	299,013
Food & Nutrition Service	10.564	Nutrition and Education Training Programs	Education	62,867
Food & Nutrition Service	10.572	WIC Farmer's Market Nutrition Program (FMNP)	Human Services	82,983
Food & Nutrition Service	10.574	Team Nutrition Grants	Education	7,127
Forest Service	**10.664**	**Cooperative Forestry Assistance**	**Conservation**	**1,036,543**
Forest Service	10.652	Forestry Research	Conservation	64,107
Food & Nutrition Service	10.999	Cooperative Marketing of Value-Added ME Potatoes	Agriculture	39,999
Food & Nutrition Service	10.999	Nutrition Network/Co-op Agreement	Human Services	27,400
Agriculture, Food Stamp Cluster				
Food & Nutrition Service	**10.551**	**Food Stamps**	**Human Services**	**102,417,648**
Food & Nutrition Service	**10.561**	**St Administrative Matching Grnts for Food Stamp Progr**	**Human Services**	**7,719,609**
Agriculture, Nutrition Cluster				
Food & Nutrition Service	10.553	School Breakfast Program	Education	3,205,920
Food & Nutrition Service	10.555	National School Lunch Program	Education	16,819,579
Food & Nutrition Service	10.556	Special Milk Program for Children	Education	125,153
Food & Nutrition Service	10.559	Summer Food Service Program for Children	Education	762,785
Non-Cash Federal Programs				
Food & Nutrition Service	10.550	Food Distribution Program (Commodities)	Education	2,959,318
Food & Nutrition Service	10.568	Emergency Food Assistance Program	Agriculture	180,830
Food & Nutrition Service	10.569	Temp Emergency Food Asst Program (Commodities)	Agriculture	904,527
Food & Nutrition Service	10.570	Nutrition Program for the Elderly (Commodities)	Human Services	673,323
Pass Through Federal Programs				
Food & Nutrition Service (through the State Dept. of Education)	10.550	Food Distribution Program	Corrections	26,258
Total U.S. Department of Agriculture Federal Programs				$160,920,659
U.S. Department of Commerce				
Direct Federal Programs				
Economic Development Administration	11.307	Special Economic Devl and Adjst Assistance Program	Economic Dev	255,000
Economic Development Administration	11.307	Special Economic Devl and Adjst Assistance Program	Marine Resource	33,629
National Oceanic & Atmospheric Administration	11.405	Anadromous Fish Conservation Act Program	Marine Resource	79,148
National Oceanic & Atmospheric Administration	11.407	Interjurisdictional Fisheries Act of 1986	Marine Resource	330,602
National Oceanic & Atmospheric Administration	11.419	Coastal Zone Management Administration Awards	State Planning	1,136,552
National Oceanic & Atmospheric Administration	11.419	Coastal Zone Management	Environment	1,047,417
National Oceanic & Atmospheric Administration	11.427	Fisheries Dev & Utiliz R & D Grants and Coop Agreements	Marine Resource	193,717
National Oceanic & Atmospheric Administration	11.430	Undersea Research	Marine Resource	353
National Oceanic & Atmospheric Administration	11.452	Unallied Industry Projects	Marine Resource	(12,634)
National Oceanic & Atmospheric Administration	11.472	Unallied Science Program	Salmon Comm	204,642
National Oceanic & Atmospheric Administration	11.474	Atlantic Coastal Fisheries Cooperative Management Act	Marine Resource	121,079
Pass Through Federal Programs				
National Oceanic & Atmospheric Administration (through the State Planning Office)	11.419	Coastal Zone Management Administration Awards	Marine Resources	137,622
National Oceanic & Atmospheric Administration (through the State Planning Office)	11.419	Implementation of Maine	Attorney General	70,358
National Oceanic & Atmospheric Administration (through the State Planning Office)	11.420	Coastal Zone Management Estuarine Research Reserves	Conservation	48,668
National Oceanic & Atmospheric Administration (through the Island Institute)	11.440	Research In Remote Sensing of the Earth & Environment	Marine Resources	80,196
National Oceanic & Atmospheric Administration (through New England Fishery Management Council)	11.441	Regional Fishery Mgmt Councils	Marine Resources	721
Total U.S. Department of Commerce Federal Programs				$3,727,071

State of Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1998

Federal Department Major Sub-Divison	Federal Catalog Number	Program Title	State Agency	Expenditures 1998
U.S. Department of Defense				
Direct Federal Programs				
Office of the Chief Engineers	12.105	Protection of Essential Highways	Transportation	153,444
Office of the Chief Engineers	12.113	State Memo of Agree Prog for the Reimb of Tech Services	Environment	476,869
National Guard Bureau	12.400	State National Guard	Defense	2,713,523
National Guard Bureau	**12.401**	**National Guard Military Operations & Maintenance Projects**	**Defense**	**8,283,114**
Total U.S. Department of Defense Federal Programs				11,626,950
U.S. Department of Housing and Urban Development				
Direct Federal Programs				
Federal Housing Commissioner	14.174	Housing Development Grants	Transportation	22,079
Community Planning & Development	**14.228**	**Community Development Block Grants / State's Program**	**Economic Dev**	**14,996,330**
Community Planning & Development	14.238	Shelter Plus Care	Mental Health	1,427,080
Housing and Urban Development	14.999	Innovative Homeless Program	OSA	129,964
Pass Through Federal Programs				
Housing and Urban Development (through the State Department of Human Services)	14.238	SFSCAN	Mental Health	139,018
Total U.S. Department of Housing and Urban Development Federal Programs				$16,714,471
U.S. Department of the Interior				
Direct Federal Programs				
Indian Grants - Ecnomic Development	15.145	Indian Grant Program	Transportation	7,580
U.S. Fish & Wildlife Service	15.600	Anadromous Fish Conservation	Salmon Comm	220,212
U.S. Fish & Wildlife Service	15.605	Sportfish Restoration	Marine Resource	599,236
U.S. Fish & Wildlife Service	15.605	Sportfish Restoration	Inland Fisheries	1,792,991
U.S. Fish & Wildlife Service	15.608	Fish & Wildlife Management Assistance	Marine Resource	1,018
U.S. Fish & Wildlife Service	15.611	Wildlife Restoration	Inland Fisheries	2,654,725
U.S. Fish & Wildlife Service	15.612	Rare and Endangered Species Conservation	Inland Fisheries	52,713
U.S. Fish & Wildlife Service	15.615	Cooperative Endangered Species Conservation Fund	Conservation	12,192
U.S. Fish & Wildlife Service	15.616	Clean Vessel Act	State Planning	33,798
Geological Survey	15.808	Geological Survey - Research and Data Acquisition	Conservation	47,966
National Park Service	15.904	Historic Preservation Fund - Grants in Aid	Historic Preserv	490,801
National Park Service	15.916	Outdoor Recreation: Acquisition, Development, & Planning	Conservation	89,009
U.S. Fish & Wildlife Service	15.FFC	North American Wetlands Conservation Act	Inland Fisheries	416,485
Pass Through Federal Programs				
DAFS WAN Funds (through the State Dept. of Financial Services)	15.999	Restructuring Credit	Conservation	4,444
Total U.S. Department of the Interior Federal Programs				$6,423,169
U.S. Department of Justice				
Direct Federal Programs				
Drug Enforcement Administration	16.005	Public Education on Drug Abuse - Information	Public Safety	68,361
Office of Juvenile Justice & Delinquency Prevention	16.540	Juvenile Justice & Delinquency Prevention	Correction	820,349
Office of Juvenile Justice & Delinquency	16.549	Part E State Challenge Activities	Correction	16,701
Bureau of Justice Statistics	16.554	National Criminal History Improvement Program	Public Safety	417,622
National Institute of Justice	16.560	Justice Research, Dev. & Eval. Project Grants	Public Safety	145,198
Bureau of Justice Assistance	16.572	State Criminal Alien Assistance Program	Correction	40,545
Bureau of Justice Assistance	16.575	Crime Victim Assistance	Human Services	1,261,654
Bureau of Justice Assistance	16.576	Crime Victim Compensation	Attorney General	50,972
Bureau of Justice Assistance	16.579	Byrne Formula Grant Program	Corrections	237,320
Bureau of Justice Assistance	16.579	Byrne Formula Grant Program	Public Safety	1,799,148
Bureau of Justice Assistance	16.579	Byrne Formula Grant Program	Judicial Branch	44,752
Bureau of Justice Assistance	16.588	Violence Against Women - Formula Grants	Public Safety	780,634
Office of Justice Programs	16.589	Rural Domestic Violence & Child Victim Enf. Grant Program	Human Services	27,063
Bureau of Justice Assistance	16.592	Local Law Enforcement Block Grants Program	Public Safety	313,041
Office of Justice Programs	16.598	State Identification Systems Grant Program	Public Safety	27,836
National Institute of Corrections	16.603	Corrections: Technical Assistance/Clearinghouse	Correction	42,917
Office of Community Oriented Policing Services	16.710	Public Safety Partnership & Community Policing Grants	Public Safety	179,267
US Department of Justice	16.999	Sex Offender Treatment Pilot Demonstration Project	Correction	14,387

State of Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1998

Federal Department Major Sub-Divison	Federal Catalog Number	Program Title	State Agency	Expenditures 1998
U.S. Department of Justice (continued)				
Pass Through Federal Programs				
Bureau of Justice Assistance (through the State Dept. of Public Safety)	16.579	Byrne Formula Grant Program	Attorney General	498,838
Bureau of Justice Assistance (through the State Dept. of Public Safety)	16.579	Byrne Formula Grant Program	Judicial	413,952
Office of Justice Programs (through Cumb. County)	16.585	Drug Discretionary Grant Program	Attorney General	30,733
Corrections Program Office (through the State Dept. of Public Safety)	16.586	Violent Offender Incarc & Truth in Sentencing Grants	Correction	843,593
Office of Justice Programs (through the State Dept. of Public Safety)	16.588	Violence Against Women - Formula Grant	Attorney General	54,093
Total U.S. Department of Justice Federal Programs				$8,128,976
U.S. Department of Labor				
Direct Federal Programs				
Bureau of Labor Statistics	17.002	Labor Force Statistics	Labor	925,306
Bureau of Labor Statistics	17.005	Compensation and Working Conditions Data	Labor	46,486
Employment & Training Administration	17.202	Cert of Foreign Workers for Temp Agri Employment	Labor	370,486
Employment & Training Administration	17.207	Employment Services	Labor	6,136,356
Employment & Training Administration	**17.225**	**Unemployment Insurance**	**Labor**	**111,561,434**
Employment & Training Administration	17.235	Senior Community Service Employment Program	Human Services	505,468
Employment & Training Administration	17.245	Trade Adjustment Assistance Workers	Labor	3,828,397
Employment & Training Administration	**17.246**	**Employment & Training Assistance Dislocated Workers**	**Labor**	**8,246,111**
Employment & Training Administration	17.249	Employment Services and Job Training - Pilot Programs	Labor	43,267
Employment & Training Administration	**17.250**	**Job Training Partnership Act**	**Labor**	**8,635,562**
Occupational Safety & Health Administration	17.504	Consultation Agreements	Labor	330,602
Mine Health and Safety Administration	17.600	Mine Health and Safety Grants	Labor	25,785
Office of the Asst Sec for Veterans' Emplmnt & Trng	17.801	Disabled Veterans Outreach Program	Labor	473,313
Office of the Asst Sec for Veterans' Emplmnt & Trng	17.802	Veterans Employment Program	Labor	588,500
Office of the Asst Sec for Veterans' Emplmnt & Trng	17.804	Local Veterans Employment Representative Programs	Labor	382,289
Employment & Training Administration	17.999	Maine Occupational Information Coordinating Committee	Labor	157,881
Total U.S. Department of Labor Federal Programs				$142,257,243
U.S. Department of Transportation				
Direct Federal Programs				
United States Coast Guard	20.005	Boating Safety Financial Assistance	Inland Fisheries	372,800
Federal Aviation Administration	20.106	Airport Improvement Program	Transportation	29,398
Federal Highway Administration	20.205	Highway Planning and Construction	Financial Serv	95,500
Federal Highway Administration	20.205	Highway Planning and Construction	Transportation	116,537,169
Federal Highway Administration	20.218	Motor Carrier Safety Assistance Program	State	80,789
Federal Highway Administration	20.218	Motor Carrier Safety Assistance Program	Public Safety	219,190
Federal Highway Administration	20.219	National Recreational Trails Funding Program	Conservation	131,011
Federal Railroad Administration	20.308	Local Rail Freight Assistance	Transportation	6,092
Federal Transit Administration	20.505	Federal Transit Technical Studies Grants	Transportation	201,257
Federal Transit Administration	20.509	Public Transportation for Nonurbanized Areas	Transportation	1,490,647
Federal Transit Administration	20.513	CAP Assistance Program for Elderly Persons & Disabl Pers	Transportation	396
Federal Transit Administration	20.514	Transit Plannning & Research	Transportation	11,374
National Highway Traffic Safety Administration	20.600	State & Community Highway Safety	Transportation	8,893
National Highway Traffic Safety Administration	20.600	State & Community Highway Safety	Public Safety	866,212
National Highway Traffic Safety Administration	20.600	State & Community Highway Safety	Human Services	79,528
Federal Transit Administration, Federal Transit Capital Cluster				
Federal Transit Administration	20.500	Federal Transit Capital Improvement Grants	Transportation	765,502
Federal Transit Administration	20.507	Federal Transit Capital and Operating Asst Formula Grts	Transportation	1,147,750
Pass Through Federal Programs				
Federal Highway Administration (through the State Department of Transportation)	20.205	Highway Planning and Construction	Conservation	10,731
Federal Highway Administration (through the State Department of Transportation)	20.205	Highway Planning and Construction	Marine Resources	33,022
Total U.S. Department of Transportation Federal Programs				$122,087,261

State of Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1998

Federal Department Major Sub-Divison	Federal Catalog Number	Program Title	State Agency	Expenditures 1998
Equal Employment Opportunity Commission				
Direct Federal Programs				
Equal Employment Opportunity Commission	30.002	Empl Discr - St & Loc - Fair Empl Pract Agcy Contracts	Human Rights	188,775
Total Equal Employment Opportunity Commission Federal Programs				$188,775
General Service Administration				
Direct Federal Programs				
Office of the Secretary	39.003	Donatation of Federal Surplus Property	Financial Services	2,003,022
Other Federal Assistance	39.999	DICAP	Conservation	29,164
Total General Service Administration Federal Programs				$2,032,186
National Foundation on the Arts & the Humanities				
Direct Federal Programs				
National Endowment for the Arts	45.024	Promotion of the Arts - Grants to Orgs and Individuals	Arts Commission	14,200
National Endowment for the Arts	45.025	Promotion of the Arts - Partnership Agreements	Arts Commission	320,430
National Endowment for the Humanities	45.149	Promo of the Humanities-Div of Presv and Access	State Library	85,942
Institute of Museum & Library Services	45.301	Institute of Museum and Library Services	State Museum	25,074
Total National Foundation on the Arts & the Humanities Federal Programs				445,645
National Science Foundation				
Direct Federal Programs				
National Science Foundation	47.050	Geosciences EPSCoR	Conservation	2,271
Total National Science Foundation Federal Programs				$2,271
Small Business Administration				
Direct Federal Programs				
Small Business Administration	59.045	Natural Resource Development	Conservation	19,729
Total Small Business Administration Federal Programs				$19,729
U.S. Department of Veterans Affairs				
Direct Federal Programs				
Veterans Benefit Administration	64.101	Burial Expenses Allowance for Veterans	Defense	40,355
Total U.S. Department of Veterans Affairs Federal Programs				$40,355
U.S. Environmental Protection Agency				
Direct Federal Programs				
Office of Air & Radiation	66.032	State Indoor Radon Grants	Human Services	108,339
Office of Water	66.419	Water Pollution Control: State/Interstate Program Support	Human Services	51,579
Office of Water	66.419	Water Pollution Control: State/Interstate Program Support	Environment	65,293
Office of Water	66.420	Water Pollution Control-State & Local Manpower Dvlpmnt	Environment	47,825
Office of Water	66.432	State Public Water System Supervision	Human Services	871,315
Office of Water	66.433	State Underground Water Source Protection	Conservation	14,978
Office of Water	66.433	State Underground Water Source Protection	Environment	6,612
Office of Water	66.435	Water Pollution Control-Lake Restoration Coop Agrmnts	Environment	15,932
Office of Water	66.454	Water Quality Management Planning	Environment	106,720
Office of Water	66.460	Nonpoint Source Implementation Grants	Environment	285,238
Office of Water	66.461	Wetlands Protection - State and Tribal Development Grants	Conservation	57,021
Office of Water	66.461	Wetlands Protection - State and Tribal Development Grants	Environment	3,474
Office of Water	66.461	Wetlands Protection - State and Tribal Development Grants	State Planning	113,858

State of Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1998

Federal Department Major Sub-Divison	Federal Catalog Number	Program Title	State Agency	Expenditures 1998
U.S. Environmental Protection Agency (continued)				
Office of Water	66.463	Ntl Pollutant Discharge Elimination Sys Rel St Prog Grnts	Environment	63,906
Office of Ground Water and Drinking	66.468	Capitalization Grants For Drinking Water State Revolving Fund	Conservation	4,118
Office of Ground Water and Drinking	66.468	Capitalization Grants For Drinking Water State Revolving Fund	Human Services	19,025
Office of Research & Development	66.501	Air Pollution Control Research	State Planning	31,172
Office of Administration	**66.605**	**Performance Partnership Grants**	**Conservation**	**94,345**
Office of Administration	**66.605**	**Performance Partnership Grants**	**Environment**	**3,452,772**
Office of Administration	66.606	Surveys, Studies, Investigations and Special Purpose Grants	Environment	117,590
Office of Enforcement & Compliance Assurance	66.700	Pesticides Enforcement Program	Agriculture	317,357
Office of Enforcement & Compliance Assurance	66.708	Pollution Prevention Grants Program	Environment	96,768
Office of Solid Waste & Emergency Response	66.802	Superfund State Site-Specific Cooperative Agreements	Environment	190,908
Office of Solid Waste & Emergency Response	66.804	State Underground Storage Tanks Program	Environment	25,838
Office of Solid Waste & Emergency Response	66.805	Leaking Underground Storage Tank Trust Fund Program	Environment	265,488
Office of Solid Waste	66.808	Solid Waste Management Assistance	Environment	3,867
Office of Solid Waste & Emergency Response	66.809	Superfund State Core Program Cooperative Agreements	Environment	253,633
Office of Solid Waste & Emergency Response	66.811	Brownfield Pilots Cooperative Agreements	State Planning	39,573
Office of Prevention, Pesticides, Toxic Substances	66.900	Pollution Prevention Grants	Environment	232,281
Office of Resources Management	66.925	State/EPA Data Management Financial Assistance Program	Environment	106
Office of Solid Waste & Emergency Response	66.999	Solid Waste Disposal Act: Section 8001	Environment	1,267
Office of Administration	66.999	Maine Comparative Risk Project Grant	Environment	9,214
Pass Through Federal Programs				
Office of Solid Waste & Emergency Response (through the State Dept. of Environmental Prot.)	66.811	Brownfield Pilots Cooperative Agreements	State Planning	10,271
Total U.S. Environmental Protection Agency Federal Programs				$6,977,682
Nuclear Regulatory Commission				
Direct Federal Programs				
Nuclear Regulatory Commission	77.001	Radiation Control-Training Assistance & Advis Counseling	Human Services	18,190
Total Nuclear Regulatory Commission Federal Programs				$18,190
U.S. Department of Energy				
Direct Federal Programs				
U.S. Department of Energy	81.039	National Energy Information Center	State Planning	3,766
Office of Energy Efficiency and Renewable Energ	81.041	State Energy Program	Economic Dev	570,587
U.S. Department of Energy	81.999	Non Federal Expenditures	State Planning	4,546
Total U.S. Department of Energy Federal Programs				$578,899
Federal Emergency Management Agency				
Direct Federal Programs				
Federal Emergency Management Agency	83.105	Community Assistance Program - St Supp Services Element	State Planning	123,090
Federal Emergency Management Agency	83.520	Mitigation Assistance	Defense	269,909
Federal Emergency Management Agency	83.534	Emergency Management - State and Local Assistance	Defense	1,310,805
Federal Emergency Management Agency	83.539	Crisis Counseling	Defense	6,044
Federal Emergency Management Agency	83.543	Individual and Family Grants	Defense	814,256
Federal Emergency Management Agency	**83.544**	**Public Assistance Grants**	**Defense**	**19,827,065**
Federal Emergency Management Agency	83.548	Hazard Mitigation Grant	Defense	599,305
Federal Emergency Management Agency	83.999	Maine Emergency Management	Inland Fisheries	67,896
Pass Through Federal Programs				
Federal Emergency Management Agency (through the Department of Defense)	**83.544**	**Public Assistance Grants**	**Transportation**	**3,594,558**
Total Federal Emergency Management Agency Federal Programs				$26,612,928

State of Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1998

Federal Department Major Sub-Divison	Federal Catalog Number	Program Title	State Agency	Expenditures 1998
U.S. Department of Education				
Direct Federal Programs				
U.S. Department of Education	84.002	Adult Education - State Grant Program	Education	1,630,619
U.S. Department of Education	84.002	Adult Education - State Grant Program	Mental Health	11,263
U.S. Department of Education	**84.010**	**Title I Grants to Local Educational Agencies**	**Education**	**27,830,644**
U.S. Department of Education	**84.011**	**Migrant Education - Basic State Grant Program**	**Education**	**3,850,762**
U.S. Department of Education	84.012	Educationally Deprived Children - State Administration	Education	3,162
U.S. Department of Education	84.015	National Resource Centers & Fellowships Prog for Language	State Library	31,967
U.S. Department of Education	**84.027**	**Special Education - Grants to States**	**Education**	**16,885,407**
U.S. Department of Education	84.029	Special Education - Personnel Development & Parent Trng	Education	207,897
U.S. Department of Education	84.034	Public Library Services	State Library	511,310
U.S. Department of Education	84.035	Interlibrary Cooperation and Resource Sharing	State Library	84,424
U.S. Department of Education	84.048	Vocational Education - Basic Grants to States	Education	4,889,929
U.S. Department of Education	84.086	Special Education-Program for Severely Disabled Children	Education	239,913
U.S. Department of Education	84.126	Rehabilitation Serv-Vocational Rehab Grants to States	Labor	11,167,072
U.S. Department of Education	84.158	Secondary Educ and Transitional Serv for Youth with Disab	Education	10,639
U.S. Department of Education	84.161	Rehab Services-Client Assistance Program	Labor	109,016
U.S. Department of Education	84.162	Immigrant Education	Education	60,265
U.S. Department of Education	84.164	St Gts for Tchr Skls & Inst in Mth, Sci, Fgn Lng, & Cmp Lrng	Education	6,982
U.S. Department of Education	84.168	Eisenhower Professional Development - National Activities	Education	56,509
U.S. Department of Education	84.169	Independent Living - State Grants	Labor	431,642
U.S. Department of Education	**84.173**	**Special Education - Preschool Grants**	**Education**	**2,380,249**
U.S. Department of Education	84.177	Independent Living Services for Older Individuals Who are Blind	Labor	224,684
U.S. Department of Education	84.181	Spec Educ Grants for Infants & Families with Disabilities	Education	1,763,375
U.S. Department of Education	84.185	Byrd Honors Scholarships	Education	130,980
U.S. Department of Education	**84.186**	**Safe and Drug Free Schools & Community - State Grants**	**Education**	**79,038**
U.S. Department of Education	**84.186**	**Safe and Drug Free Schools & Community - State Grants**	**OSA**	**539,240**
U.S. Department of Education	84.187	Supported Employment Services for Indiv. With Severe Disab	Labor	416,052
U.S. Department of Education	84.194	Bilingual Education Support Services	Education	97,587
U.S. Department of Education	84.196	Education for Homeless Children and Youth	Education	77,127
U.S. Department of Education	84.213	Even Start - State Educational Agencies	Education	499,045
U.S. Department of Education	84.224	State Grants for Assistive Technology	Education	715,239
U.S. Department of Education	84.243	Tech-Prep Education	Education	469,377
U.S. Department of Education	84.263	Rehab Training - Experimental & Innovative Training	Labor	97,467
U.S. Department of Education	84.265	Rehab Training - St Voc Rehab Unit Inservice Training	Labor	40,030
U.S. Department of Education	**84.276**	**Goals 2000 - St & Loc Education Systemic Impr Grants**	**Education**	**2,459,112**
U.S. Department of Education	84.278	Career Opport 2000 - St wide School to Work Opportunities	Education	1,425,570
U.S. Department of Education	84.281	Eisenhower Professional Development State Grants	Education	1,558,029
U.S. Department of Education	84.298	Title VI - Innovative Education Program Strategies	Education	1,523,931
U.S. Department of Education	84.318	Technology Literacy Challenge Fund Grants	Education	984,546
U.S. Department of Education	84.995	Grant Back - Perkins and Adult Education	Education	3,688
Other Federal Assistance	84.999	Grant Back Funds	Education	10,721
U.S. Department of Education	84.999	SSA Reimbursements	Labor	574,265
Pass Through Federal Programs				
U.S. Department of Education (through the State Dept. of Education)	84.002	Adult Education - State Grant Program	Corrections	38,734
U.S. Department of Education (through the State Dept. of Education)	**84.011**	**Migrant Education - Basic State Grant Program**	**Corrections**	**18,243**
U.S. Department of Education (through the State Dept. of Education)	84.012	Educationally Deprived Children - State Administration	Corrections	105,220
U.S. Department of Education (through the State Dept. of Education)	84.013	Title I Program for Neglected and Delinquent Children	Corrections	34,460
U.S. Department of Education (through the State Dept. of Education)	**84.027**	**Special Education Grants to States**	**Corrections**	**47,204**
U.S. Department of Education (through the State Dept. of Education)	84.048	Vocational Education - Basic Grants to States	Corrections	53,442
U.S. Department of Education (through the State Dept. of Mental Health)	**84.186**	**Safe and Drug Free Schools & Community - State Grants**	**Corrections**	**5,947**
U.S. Department of Education (through the State Dept. of Mental Health)	**84.186**	**Safe and Drug Free Schools & Community - State Grants**	**Education**	**911**
U.S. Department of Education (through the State Dept. of Education)	**84.186**	**Safe and Drug Free Schools & Community - State Grants**	**OSA**	**2,403,956**
U.S. Department of Education (through the State Dept. of Education)	84.278	Career Opport 2000 - St wide School to Work Opportunities	Labor	346,220
U.S. Department of Education (through the State Dept. of Education)	84.281	Eisenhower Professional Development State Grants	Corrections	4,606
Office of Elementary and Secondary Education (through the State Dept. of Education)	84.298	Innovative Education Program Strategies	Corrections	4,427
Other Federal Assistance (through the State Dept. of Labor)	84.999	Technology Literacy Challenge Fund Grants	Corrections	750
Total U.S. Department of Education Federal Programs				$87,152,895

State of Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1998

Federal Department / Major Sub-Divison	Federal Catalog Number	Program Title	State Agency	Expenditures 1998
National Archives & Records Administration				
National Archives & Records Administration	89.003	National Historical Publications and Records Grants	State	54,585
Total National Archives & Records Administration				54,585
U.S. Department of Health and Human Services				
Direct Federal Programs				
Administration on Aging	93.041	Spc Prg/Agng-Ttl VII, Ch 3-Pro /Prev of Eld Abu, Neg & Expl	Human Services	47,483
Administration on Aging	93.042	Spc Prg/Agng-Ttl VII, Ch 2-Long Term Ombudsman	Human Services	22,245
Administration on Aging	93.043	Spc Prg/Agng-Ttl III, Part F-Disease Prev & Hlth Prom Ser	Human Services	78,115
Administration on Aging	**93.044**	**Spc Prg/Agng-Ttl III, Part B-Grnt for Supt Serv & Sen Ctrs**	**Human Services**	**1,360,327**
Administration on Aging	**93.045**	**Spc Prg/Agng-Ttl III, Part C-Nutrition Services**	**Human Services**	**2,718,423**
Administration on Aging	93.046	Spc Prg/Agng-Ttl III, Part D-In-Home Serv for Frail Oldr Ind	Human Services	46,315
Administration on Aging	93.048	Spc Prg /Agng-Ttl IV,Trng, Res & Discret Proj & Prog	Human Services	1,772
Food and Drug Administration	93.103	Food & Drug Administration - Research93	Marine Resources	6,217
Substance Abuse & Mental Health Service Adm	**93.104**	**Comp Comm M. H. Svcs for Child w/Ser Emot Disturb**	**Mental Health**	**4,504,291**
Health Resources & Services Adm	93.110	Maternal & Child Health Federal Consolidated Programs	Human Services	423,706
Centers for Disease Control and Prevention	93.116	Proj Grnts and Coop Agreements for Tuberculosis Cont Prog	Human Services	142,447
Substance Abuse & Mental Health Service Adm	93.125	Mental Health Planning and Demonstration Projects	Mental Health	96,462
Health Resources & Services Adm	93.130	Primary Care Serv-Res Coor & Dev Primary Care Off	Human Services	128,189
Centers for Disease Control and Prevention	93.136	Injury Prevention & Control Research-St & Com Based Progs	Human Services	48,982
Substance Abuse & Mental Health Service Adm	93.150	Projects for Assistance in Transition from Homelessness	Mental Health	328,434
Health Resources & Services Adm	93.165	Grants for State Loan Repayment	Human Services	62,975
Centers for Disease Control and Prevention	93.184	Disabilities Prevention	Human Services	63,792
Health & Human Services	93.194	Community Prevention Coalitions (Partnership) Demonstration Grant	OSA	234,720
Centers for Disease Control and Prevention	93.197	Childhood Lead Poisoning Prevention Projects	Human Services	316,104
Substance Abuse & Mental Health Service Adm	93.230	Consolidated Knowledge Dev. & Application Program	Mental Health	104,074
National Insitutes of Health	93.242	Mental Health Research Grants	Mental Health	38,841
Centers for Disease Control and Prevention	**93.268**	**Childhood Immunization Grants**	**Human Services**	**7,317,152**
Centers for Disease Control and Prevention	93.283	Centers for Disease Control & Prev-Inv & Tech Asst	Human Services	795,746
Centers for Disease Control and Prevention	93.393	Assist Project	Human Services	683,282
National Insitutes of Health	93.399	Cancer Control	Human Services	9,931
Administration for Children & Families	93.556	Family Preservation and Support Services	Human Services	984,262
Administration for Children & Families	**93.558**	**Temporary Assistance for Needy Families**	**Human Services**	**70,719,207**
Administration for Children & Families	93.562	Assistance Payments - Research	Human Services	124,370
Office of Child Support Enforcement	93.563	Child Support Enforcement	Human Services	10,707,663
Office of Refugee Settlement	93.566	Refugee and Entrant Asst - State Administered Prog	Human Services	383,807
Administration for Children & Families	**93.569**	**Community Services Block Grant**	**Human Services**	**2,726,930**
Office of Community Services	93.571	Community Services Block Grant Discretionary Awards	Human Services	13,638
Administration for Children & Families	**93.575**	**Child Care and Development Block Grant**	**Human Services**	**8,382,437**
Administration for Children & Families	93.576	Refugee and Entrant Assistance - Discretionary Grants	Human Services	133,370
Administration for Children & Families	93.586	State Court Improvement Program	Off of the Courts	33,870
Administration for Children & Families	**93.596**	**Child Care Mandatory & Matching Funds of Child Care/Dev**	**Human Services**	**7,821,808**
Administration for Children & Families	93.600	Head Start	Human Services	173,967
Administration for Children & Families	93.630	Development Disabilities Basic Supp & Advocacy Grants	Mental Health	343,559
Administration for Children & Families	93.643	Children's Justice Grants to States	Human Services	103,712
Administration for Children & Families	93.645	Child Welfare Services: State Grants	Human Services	1,463,089
Administration for Children & Families	**93.658**	**Foster Care-Title IV-E**	**Human Services**	**30,697,024**
Administration for Children & Families	**93.659**	**Adoption Assistance**	**Human Services**	**4,561,022**
Administration for Children & Families	**93.667**	**Social Services Block Grant**	**Human Services**	**12,097,768**
Administration for Children & Families	**93.667**	**Social Services Block Grant**	**Mental Health**	**1,220,291**
Administration for Children & Families	93.669	Child Abuse & Neglect: State Grants	Human Services	148,418
Administration for Children & Families	93.671	Family Violence Prev & Serv: Grts to St and Indian Tribes	Human Services	426,762
Administration for Children & Families	93.673	Grants to States for Plan & Dev of Dep Care Prog	Human Services	23,226
Administration for Children & Families	93.674	Independent Living	Human Services	580,149
Health Care Financing Administration	93.779	Health Care Financing Resch, Demo & Evaluations	Human Services	392,458
Health Resources and Services Adm	93.913	Grants to States for Operation of Offices of Rural Health	Human Services	50,534
Health Resources and Services Adm	93.917	HIV Care Formula Grants	Human Services	922,257
Centers for Disease Control and Prevention	93.919	Coop Agrmt/St-Based Comp Brst & Cerv Cancer Cont Prog	Human Services	1,348,081
Centers for Disease Control and Prevention	93.938	Coop Ag-Sch Hlth Prg/Pvt the Spd of HIV & Oth Imp Hlth Prb	Education	238,923
Centers for Disease Control and Prevention	93.940	HIV Prevention Activities - Health Department Based	Human Services	1,387,691
Centers for Disease Control and Prevention	93.944	HIV/AIDS Surveillance	Human Services	144,583
Health Resources and Services Adm	93.951	Demo Grts to St with Respect to Alzheimer's Disease	Human Services	341,588
Public Health Service II	93.958	Block Grants for Community Mental Health Services	Mental Health	1,320,382
Centers for Disease Control and Prevention	93.977	Preve Health Serv-Sexually Transmitted Diseases Cont Grt	Human Services	226,699
Centers for Disease Control and Prevention	93.988	Coop Agrmnt for St Based Diabetes Control Programs	Human Services	328,726
Centers for Disease Control and Prevention	**93.991**	**Preventive Health & Health Services Block Grant**	**Human Services**	**2,159,143**
Health Resources and Services Adm	93.994	Maternal & Child Health Services Block Grant to States	Human Services	3,808,696
Health Resources and Services Adm	93.994	Maternal & Child Health Services Block Grant to States	Education	114,091
Health and Human Services	**93.959**	**Block Grants for Prevention and Treatment of Substance Abuse**	**OSA**	**5,406,877**
Health and Human Services	93.999	MIS: Implementation of Uniform Alcohol and & Drug Abuse Data Collection System	OSA	25,893
Health and Human Services	93.999	Needs Assessment Grant (Kansas): Six State Consortium	OSA	104
Health and Human Services	93.999	State Demands & Needs Assessment Studies: Alcohol & Other Drugs	OSA	476,772
Health and Human Services	93.999	Statistical Projects	Human Services	375,831
Unknown	93.999	Robert Wood Johnson Foundation: Local Initiative Funding Partners Program	OSA	6,936

See accompanying notes to the Schedule of Expenditures of Federal Awards

State of Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1998

Federal Department Major Sub-Divison	Federal Catalog Number	Program Title	State Agency	Expenditures 1998
U.S. Department of Health and Human Services (continued)				
Health & Human Services, Medicaid Cluster				
U.S. Department of Health and Human Services	**93.775**	**State Medicaid Fraud Control Units**	**Attorney General**	**212,315**
U.S. Department of Health and Human Services	**93.777**	**St Survey & Cert of Health Care Providers & Suppliers**	**Human Services**	**1,870,351**
U.S. Department of Health and Human Services	**93.778**	**Medical Assistance Program**	**Human Services**	**735,545,099**
Pass Through Federal Programs				
Administration for Children & Families (through the State Dept. of Human Services)	93.560	Fam Sup Pmt to St - Asst Pmt(Aid to Fam w/ Dep Chld)	Attorney General	122,304
Office of Child Support Enforcement (through the State Dept. of Human Services)	93.563	Child Support Enforcement	Attorney General	844,895
Administration for Children & Families (through the State Dept. of Human Services)	93.586	State Court Improvement Program	Judicial Branch	28,726
Administration for Children & Families (through the State Dept. of Human Services)	**93.658**	**Foster Care-Title IV-E**	**Corrections**	**58,908**
Administration for Children & Families (through the State Dept. of Mental Health)	**93.959**	**Block Grants for Prevention and Treatment of Substance Abuse**	**Human Services**	**108,004**
Administration for Children & Families (through the State Dept. of Human Services)	**93.667**	**Social Services Block Grant**	**Attorney General**	**452,332**
Centers for Disease Control and Prevention (through the State Department of Human Services)	**93.991**	**Preventive Health & Health Services Block Grant**	**Public Safety**	**231,078**
Unknown (through the State Dept. of Human Services)	93.999	Tax & Match	OSA	392,289
Unknown (through the State Dept. of Human Services)	93.999	Training	Mental Health	412,291
Total U.S. Department of Health and Human Services Federal Programs				$932,805,231
Corporation for National and Community Services				
Direct Federal Programs				
Corporation for National and Community Services	94.003	State Commissions	State Planning	117,170
Corporation for National and Community Services	94.004	Learn & Serve America-School & Com Based Prog	Education	106,634
Corporation for National and Community Services	94.004	Learn & Serve America-School & Com Based Prog	State Planning	178,178
Corporation for National and Community Services	94.006	AmeriCorps	State Planning	457,293
Corporation for National and Community Services	94.006	AmeriCorps	Labor	122,538
Corporation for National and Community Services	94.009	Training and Technical Assistance	State Planning	102,815
Pass Through Federal Programs				
Corporation for National and Community Services (through the State Dept. of Labor)	94.006	AmeriCorps	State Planning	401,441
Total Corporation for National and Community Services Federal Programs				$1,486,069
Social Security Administration				
Direct Federal Programs				
Social Security	96.001	Disability Insurance	Human Services	5,998,854
Total Social Security Administration Federal Programs				$5,998,854
Total State Expenditures of Federal Awards				1,536,300,093

State of Maine
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 1998

Legend of State Agency Abbreviations

State Agency Name	Abbreviation Used in the Schedule of Expenditures of Federal Awards
Agriculture	Department of Agriculture
Arts Commission	Maine Arts Commission
Attorney General	Department of the Attorney General
Conservation	Department of Conservation
Corrections	Department of Correction
Defence	Department of Defense and Veterans Services
Economic Dev	Department of Economic and Community Development
Education	Department of Education
Environment	Department of Environmental Protection
Financial Serv	Department of Administrative and Financial Services
Health Data	Maine Health Data Organization
Historic Preserv	Maine Historic Preservation Commission
Historical Records	Maine Historical Records Advisory Council
Human Rights	Maine Human Rights Commission
Inland Fisheries	Department of Inland Fisheries and Wildlife
Judicial	Judicial Department
Labor	Department of Labor
Marine Resource	Department of Marine Resources
Mental Health	Department of Mental Health, Mental Retardation and Substance Abuse Services
Off of the Courts	Administrative Office of the Courts
Public Safety	Department of Public Safety
Salmon Comm	Atlantic Sea Run Salmon Commission
State	Department of the State
State Library	Maine State Library
State Museum	Maine State Museum
State Planning	Executive Department - State Planning Office
Transportation	Department of Transportation

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STATE OF MAINE
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1998

1. Purpose of the Schedule

The accompanying Schedule of Expenditures of Federal Awards (Schedule) is a supplementary schedule to the State's general-purpose financial statements (GPFS) and is presented for purposes of additional analysis. Total expenditures for each Federal financial assistance program as identified in the Catalog of Federal Domestic Assistance (CFDA) are shown. Federal financial assistance programs, which have not been assigned a CFDA number, have been identified using the two-digit federal agency number and the suffix *999*. Federal award amounts are aggregated by federal agency; direct and pass-through amounts are reported by primary recipient to prevent overstatement of expenditures of federal awards.

Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations requires the Schedule.

2. Significant Accounting Policies

A. *Reporting Entity* - The reporting entity is defined in Note 1 to the State's general purpose financial statements (GPFS). The accompanying Schedule includes all federal financial assistance programs of the State of Maine reporting entity for the fiscal year ended June 30, 1998, with the exception of the component units identified in Note 1 to the GPFS. The component units engaged other auditors.

B. *Basis of Presentation* – The information in the accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133.

1) Federal Awards – Pursuant to the Single Audit Act Amendments of 1996 (Public Law 104-156) and OMB Circular A-133, federal award is defined as federal financial assistance and federal cost-reimbursement contracts that non-federal agencies receive directly or indirectly from federal agencies or pass-through entities. Federal financial assistance is defined as assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations and other assistance. Accordingly, non-monetary federal assistance, including food stamps and food commodities, is included in federal financial assistance and, therefore, is reported on the Schedule of Expenditures of Federal Awards. Federal financial assistance does not include direct federal cash assistance to individuals.

2) Type A and Type B Programs – The Single Audit Act Amendments of 1996 and OMB Circular A-133 established the levels of expenditures to be used in defining Type A and Type B federal financial assistance programs. Type A programs for the State of Maine are those programs that equal or exceed $4.5 million in expenditures, distributions, or issuances for the year ended June 30, 1998. Programs audited as major programs are in bold print in the accompanying schedule.

C. *Basis of Accounting* - The information presented in the Schedule of Expenditures of Federal Awards is presented primarily on the cash basis of accounting, which is consistent with the other Federal grant reports. The General Purpose Financial Statements are reported on the modified accrual basis of accounting. Consequently, the schedule's data may not be directly traceable to the financial statements.

3. Program Information

A. Department of Education - Food Distribution Program (CFDA 10.550): The reported total of federal financial assistance represents the value of food commodities distributed to various schools, institutions, and other qualifying entities. The value of inventory as of June 30, 1998 was $116,241.

B. Department of Human Services - Food Stamps (CFDA 10.551): The reported total of federal financial assistance represents the value of food coupons issued. The value of inventory as of June 30, 1998 was $20,456,298.

C. Department of Human Services - Nutrition Program for the Elderly (CFDA 10.570): The amount reported of $673,323 represents cash in lieu of commodities expended in the Elderly Feeding Program.

D. Department of Human Services – WIC Program (CFDA 10.557): The amount reported of $12,624,165 reflects a change in the method of recording formula rebates. In prior years the rebates were recorded as revenue rather than a reduction of expenditures.

E. Department of Human Services – Childhood Immunization Grant (CFDA 93.268): The reported total of federal financial assistance represents $3,725,208 for administrative costs and $3,591,944 for the value of vaccines disbursed. The value of inventory as of June 30, 1998 was $1,616,640.

F. Department of Agriculture - Temporary Emergency Food Assistance - Food Commodities (CFDA 10.569): The reported total of federal financial assistance consists of administrative costs of $51,058 under the Temporary Food Assistance Program (TEFAP). The value of inventory at June 30, 1998 was $253,748.

G. Department of Administrative and Financial Services - Donated Federal Surplus Personal Property (CFDA 39.003): Distributions are reported at fair market value. The value of inventory as of June 30, 1998 was $2,003,022.

H. Department of Conservation - Federal Excess Personal Property (no CFDA number): During fiscal year 1998 the state received property with an original acquisition cost of $1.3 million from the U.S. Department of Agriculture. The title has not transferred to the state and the amount is not recorded on the Schedule of Expenditures of Federal Awards.

I. Department of Defense, Veterans and Emergency Management - National Guard Military Operations & Maintenance Projects (CFDA 12.401): The amount recorded as expenditures includes $3,274,852 of in-kind expenditures.

4. Unemployment Insurance Program

The expenditures reported on the Schedule for Unemployment Insurance, CFDA Program No. 17.225, include:

State Funds	$ 88,984,906
Federal Funds	22,576,528
Total	$111,561,434

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STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditors report issued:	Qualified	
Internal control over financial reporting:		
• Material Weaknesses Identified?	YES ☑	NO ☐
• Reportable conditions identified that were not considered to be material weaknesses?	YES ☑	NO ☐
• Noncompliance material to financial statements noted?	YES ☐	NO ☑

Federal Awards:

Internal control over major programs:		
• Material weaknesses identified?	YES ☐	NO ☑
• Reportable conditions identified that were not considered to be material weaknesses?	YES ☑	NO ☐
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)?	YES ☑	NO ☐

Identification of Major Programs:

CFDA #	Name of Federal Program or Cluster
Food Stamp Cluster	
10.551	Food Stamps
10.561	State Administrative Matching Grants for Food Stamp Program
JTPA Cluster	
17.246	Employment and Training Assistance - Dislocated Workers
17.250	Job Training Partnership Act
Special Education Cluster	
84.027	Special Education - Grants to States
84.173	Special Education - Preschool Grants

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998

Identification of Major Programs (continued):

Aging Cluster	
93.044	Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers
93.045	Special Programs for the Aging - Title III, Part B - Nutrition Services
Medicaid Cluster	
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.778	Medical Assistance Program (Medicaid, Title XIX)
Other Programs	
10.557	Special Supplemental Nutrition Program for Women Infants and Children
10.664	Cooperative Forestry Assistance
12.401	National Guard Military Operations $ Maintenance Projects
14.228	Community Development Block Grants / State's Program
17.225	Unemployment Insurance
66.605	Performance Partnership Grants
83.544	Public Assistance Grants
84.010	Title I Grants to Local Educational Agencies
84.011	Migrant Education - Basic State Grant Program
84.186	Safe and Drug Free Schools & Community - State Grants
84.276	Goals 2000 - State and Local Education Systemic Improvement Grants
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances
93.268	Childhood Immunization Grants
93.558	Temporary Assistance for Needy Families
93.569	Community Services Block Grant
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.658	Foster Care - Title IV E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.991	Preventative Health and Health Services Block Grant

Dollar threshold used to distinguish between type A and type B programs	**$4,608,900**	
Does the auditee qualify as low risk?	YES ☐	NO ☑

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998

Section II - Financial Statement Findings

DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

(98-01) Bureau of Accounts and Control

Finding: Accounts payable procedures inadequate (Prior Year Finding)

The process used to identify and report amounts owed by the State is inadequate. It does not provide reasonable assurance that a material misstatement may occur and not be detected within a timely period in normal course of operations.

Problems with the process include:

1. A lack of clearly written procedures to guide agency accounting personnel so that they can consistently identify and report accounts payable amounts to the Bureau of Accounts and Control. Some amounts were accrued that should not have been and others were not accrued that should have been. Treatment of encumbered amounts differed between agencies because of conflicting and unclear guidance.

2. The process does not identify invoice amounts to be prorated between amounts that should be a liability and those that are expenditures of the next period.

3. Significant payments are made based on external interface and batch payment systems. It is not clear whether the systems allow an accrual indicator to be set for individual payments in these systems. Payables should be identifiable on both external interface and batch payment systems.

4. Amounts due to component units are established based on information obtained from the component units' financial statements. The State does not independently determine or verify that that amount is due to the component unit prior to establishing the payable.

General Fund and Special Revenue Fund accounts payable were adjusted by $11.8 million and $6.6 million respectively.

Recommendation:

We recommend that the Bureau of Accounts and Control develop procedures to consistently identify, value and record material amounts owed by the State.

Auditee Response/Corrective Action Plan:

1. *We agree that the instructions for fiscal year 1998 were not as clear as possible and some incorrect guidance was given. We have revised the instructions for fiscal year 1999 and believe that the accounts payable documentation provided to agencies will bring clarity and accuracy to agency reporting.*

2. *We agree that the accounting system does not currently identify invoices that should be prorated between accounting periods. However, we do not believe these amounts would be significant. We will analyze sample transactions and further evaluate this situation.*

3. *We agree that it was not clear whether interface systems could use the accrual indicator. We are currently in the process of meeting with personnel from those interfacing agencies and believe we have developed methods to accumulate the payable data for fiscal year 1999 for those significant systems.*

4. *We do not agree with the statement that the State does not independently verify the amounts due to the component units. The amounts reported in the component unit financial statements were opined on by independent auditors. In addition, we did verify a sample of the significant amounts and at the time did not find any material discrepancies.*

**(98-02) Bureau of Accounts andControl
Division of Financial and Personnel Services**

Finding: Inadequate internal control system to identify capital leases (Prior Year Finding)

The Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 13, Accounting for Leases, defines capital and operating leases, the criteria for classifying each type of lease, and the accounting, reporting, and financial statement disclosures required by lessees and lessors.

The Department of Administrative and Financial Services (DAFS) does not evaluate and report leases in accordance with SFAS No. 13. Centralized information is not sufficient to prepare all necessary financial adjustments and required note disclosures. DAFS classifies all leases entered into by the State as operating leases without any documented basis to support the classification.

In fiscal year 1998, the State hired a contractor to determine whether Internal Service Fund leases were capital or operating leases. Of those leases analyzed, the contractor identified $29.2 million as capital leases at lease inception date. The amount of the financial statement adjustment necessary at June 30, 1998 was not determined and the audit opinion on the financial statements was qualified accordingly.

Recommendation:

We recommend that DAFS complete the procedures necessary to evaluate and record all leases in accordance with SFAS No. 13.

Auditee Response/Corrective Action Plan:

We agree with the recommendation. Our work in this area is nearly complete. We should be in compliance for FY 99's audit.

(98-03) Bureau of Accounts and Control

Finding: Fixed asset records incomplete (Prior Year Finding)

Title 5, MRSA § 1541, requires the Department of Administrative and Financial Services - Bureau of Accounts and Control (BAC) to maintain an official statewide system for fixed assets for all State agencies, and to update and reconcile it annually. During fiscal year 1998, the Bureau did not have detailed records of all land, buildings and equipment owned by the State. As a result, the State's financial statements do not include the General Fixed Assets Account Group, which is required by Generally Accepted Accounting Principles. This omission results in a qualified audit opinion.

Accurate records for the General Fixed Asset Account Group are necessary for financial reporting and to reduce the risk of misappropriated State property.

Recommendation:

We recommend that the Bureau of Accounts and Control maintain required fixed asset records.

DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

<u>Auditee Response/Corrective Action Plan</u>:

We agree with the finding. We are in the process of recording all historical information related to fixed assets for the State and intend to have the information completed for the fiscal year 1999 audit.

(98-04) Bureau of Alcoholic Beverages and Lottery

<u>Finding</u>: No assurance of adequate internal controls

The Maine State Lottery has limited means to assure that controls over financial reporting are adequate and in operation. Account balances and transaction totals resulting from "instant" games are based almost entirely upon vendor reports.

<u>Recommendation</u>:

Due to Lottery's degree of reliance upon the vendor, and geographical distance from the vendor, we recommend that Lottery obtain an annual SAS 70 report on internal controls.

<u>Auditee Response/Corrective Action Plan</u>:

The Bureau conducted a SAS Audit last year and intends to do this annually. While we are late in our procurement of audit services we are presently contracting to have such an Audit performed as recommended by the State Auditor and will be on a timely schedule moving forward.

(98-05) Maine Revenue Services

<u>Finding</u>: Inadequate segregation of duties (Prior Year Finding)

One individual in the Maine Revenue Service's Electronic Fund Transfers Unit has access to assets and to accounting records for the assets. The person's duties include communicating with taxpayers to make electronic fund payments, preparing the cash receipts for these payments, preparing the source documentation for posting to the Maine Automated Tax System and reviewing bank account activity for accuracy.

In addition, we noted deposits in the bank are not being timely reconciled by the State Treasurer's Office. Duties not adequately segregated as well as untimely deposit reconciliation could allow a delay in detection of malfeasance.

Recommendation:

We recommend that Maine Revenue Services review the electronic fund transfer process and segregate duties to provide reasonable assurance that revenues received are adequately safeguarded.

Auditee Response/Corrective Action Plan:

Contact Person: Jerome Gerard, CPA

MRS will segregate duties by having the supervisor in the EFT unit handle all taxpayer contacts regarding the setting up of a taxpayer for fund transfers while her assistant handles the related accounting functions.

To further strengthen MRS' controls over this area, materials sent to taxpayers that apply for EFT processing will be instructed to verify the state's bank account number for EFT by checking MRS' Web Page.

MRS will contact other entities that use EFT to determine what internal controls they use in ensuring adequate safeguarding for this area. Every reasonable effort will be made to employ better controls in MRS' EFT process.

MRS has begun to implement some of the aforementioned reforms and will continue to develop and refine "controls" throughout fiscal year 2000.

(98-06) Division of Financial and Personnel Services

See also (98-48) **Questioned Costs:** $324,077

Finding: Working capital excessive, disbursements not in compliance, and account structure inadequate (Prior Year Finding)

The State of Maine provides health care benefits for most retirees using the pay-as-you-go method. The Retiree Health Insurance Internal Service Fund is used to collect funds for and to pay health insurance premiums on behalf of retired state employees, retired teachers and for retirees of other participating ancillary groups. At June 30, 1998, the Fund balance was $12.3 million, an increase of $4.0 million from the preceding year.

Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments,* restricts allowable working capital in Internal Service Funds.

Generally, working capital in excess of 60 days for cash expenses for normal operations is considered excessive. The Fund disbursed $17.1 million for normal operations in fiscal year 1998. At June 30, 1998, working capital available exceeded that allowed by $9.5 million. The Fund had working capital sufficient for eight and one-half months rather than two.

Sections 11(f) 1, 5, and 6 of OMB Circular A-87 restrict allowable charges for post-retirement health benefit plans financed on a pay-as-you-go method to actual payments to retirees and their beneficiaries. Post retirement health benefit costs must be paid either to: (a) an insurer or other benefit provider as current year costs or premiums, or (b) an insurer or trustee to maintain a trust fund or reserve for the sole purpose of providing postretirement benefits to retirees and other beneficiaries.

Federal funds contributed 15.52 percent of the 1998 fiscal year $2.1 million excess revenue associated with retired state employees. We therefore question $324,077, the federal share of funds paid in excess of those paid to insurers for state retirees.

We also note that Fund accounting records are not structured to identify amounts paid in and premiums paid out by participating group. Agency personnel have not made such comparisons. It is therefore possible that funds paid in by one group or funding source could subsidize other participants without it being known. For the 1998 fiscal year, our examination showed that no such subsidy took place; each group paid in more than was disbursed.

Recommendation:

We recommend that the Division establish accounts within the Fund that will permit identification of amounts received and disbursed on behalf of each participating group. We also recommend that, if the pay-as-you-go method is retained, federal funds be disbursed as required to avoid future questioned costs and that working capital comply with federal ceilings.

Auditee Response/Corrective Action Plan:

The authorization to establish a proper internal service fund was granted by the Legislature in Section B-4, Chapter 16, Public Law, 1999. The Working Capital will be adjusted to reflect the allowable 60 day reserve authorized by OMB Circular A-87.

The Department has retained the services of a qualified actuary to examine the program. The results of the acturary's work demonstrate that there are no excess balances from any participating fund or charges levied any participating fund.

DEPARTMENT OF HUMAN SERVICES

(98-07) Bureau of Child and Family Services

<u>Finding</u>: Accounts payable amounts overstated

The Bureau of Child and Family Services incorrectly accrued contract payments for services rendered in fiscal year 1999 as accounts payable in fiscal year 1998. Accounts payable were overstated by $4.9 million prior to audit adjustment**.**

<u>Recommendation</u>:

We recommend that Bureau accountants be instructed as to the proper recording of accounts payable.

<u>Auditee Response/Corrective Action Plan</u>:

The Contact: Jeannette Talbot.

Previously, the Bureau of Child & Family Services manually processed monthly contract payments a month in advance to their social services agencies. This would lead to this accounts payable overstatement when going from one fiscal year to another. Currently, Maine Automated Child Welfare Information System (MACWIS) automatically processes these invoices the same month they are due which will alleviate this situation.

DEPARTMENT OF LABOR

(98-08) Office of Administrative Services

<u>Finding</u>: Allowance account for uncollectible receivables not properly estimated (Prior Year Finding)

The Department of Labor (DOL) does not properly estimate unemployment compensation payroll tax receivables that are not expected to be collected. The Allowance for Doubtful Accounts was understated and Deferred Revenue was overstated by approximately $3.5 million.

The allowance account should represent a reasonable estimate of losses of uncollectible receivables. DOL included only the amount of receivables approved to be written off and amounts owed by businesses in bankruptcy status. DOL did not assess other amounts to determine collectibility.

Recommendation:

We recommend that DOL develop an estimate, based on historical collection data, for the amount of receivables that may be uncollectible. DOL should use this estimate to establish the Allowance for Doubtful Accounts on the State's accounting records.

Auditee Response/Corrective Action Plan:

The OAS has adopted the procedure that a reserve for uncollectible receivable will be established using the Unemployment Compensation Receivable report (TXAM) for receivables that are older than the most current calendar year. The appropriate journal entries were made reflecting this change for the period ending June 30, 1999.

(98-09) Office of Administrative Services

See also (98-46)

Finding: Accounting systems not reconciled (Prior Year Finding)

The Department of Labor (DOL) does not reconcile expenditures recorded on its internal accounting and reporting system (DOLARS) to the statewide accounting system (MFASIS) on a timely basis. All costs are paid through MFASIS and then distributed to the applicable federal grant through DOLARS. DOL uses DOLARS to allocate indirect costs and to charge direct costs to the applicable federal grant as well for federal financial reporting. DOL received 24 federal grants in the 1998 fiscal year and expended $65 million of federal grant funds.

As of the date of audit, DOL is three years behind in reconciling DOLARS to MFASIS. DOL personnel stated that the reconciliation process is in various stages of completion. DOL has three positions dedicated to the reconciliation process. The Department has also contracted with a private firm to provide services to assist in the reconciliation process. This contractor will provide up to 3,000 hours of services over an 18 month period, for a cost not to exceed $90,000.

Certain procedural deficiencies of DOLARS hinder both the recording of transactions and the reconciliation process and complicate the cost allocation process:

DEPARTMENT OF LABOR

1. Transactions are separately coded and entered into the two systems (MFASIS and DOLARS). Each system has its unique account code structure. The DOLARS transactions are entered into approximately 1000 fund ledgers. Due to the complexity of the account code structure, and the dual nature of the data entry process, data entry errors are inevitable.

2. DOL maintains a master file on DOLARS of each employee's hourly rate and benefit package. This master file must be updated whenever an employee's salary or benefit package changes. DOL tracks these changes for approximately 700 employees.

3. Certain prior period adjustments are not made on either system. DOL personnel stated that some of these adjustments are due to timing differences and that these adjustments may have cleared in subsequent periods.

The Common Rule, Section 20, Standards for Financial Management Systems, states:

> A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, must be sufficient to
>
> 1) permit preparation of reports required .., and
>
> 2) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Recommendation:

In order to ensure compliance with federal regulations, accurate financial reporting, and effective management review of allocated expenditures, we recommend that DOL:

1. Reconcile total revenue and expenditures on DOLARS to MFASIS for each federal grant on a monthly basis and prior to preparing any federal financial reports or the Schedule of Federal Awards.

2. Develop a single data entry point that would allow DOL to record transactions at the same time on both MFASIS and DOLARS.

DEPARTMENT OF LABOR

3. Integrate the DOLARS function into the MFASIS upgrade package. Such an integration would need to include the Time and Attendence module. This package would have to allow DOL to use actual personal services charges on MFASIS to record direct personal services costs by grant and develop the ratios used for the allocation of overhead charges. As a result of this integration, DOL could eliminate the DOLARS salary and personal benefits master file and also discontinue the use of the monthly Time Distribution Report (form BM-3).

Auditee Response/Corrective Action Plan:

OAS concurs with the finding. As stated, the reconciliation process is in various stages of completion. The OAS feels confident that in the State fiscal year 2000, current reconciliation and adjusting entries will be completed within the following monthly accounting cycle. With the assistance of the contractor, all other reconciliations are expected to be completed by January 31, 2000.

As regard to options recommended by the Department of Audit and as stated during an oral interview, OAS and OIP had already examined the options presented by the Department of Audit regarding dual data entry and time and attendance. To eliminate redundancy, development and implementation of enhancements to DOL's current system was suspended pending the outcome of the State's Time and Attendance and Budget RFP's.

DEPARTMENT OF TRANSPORTATION

(98-10) Bureau of Finance and Administration

Finding: Overstatement of accounts payable accruals

Prior to adjustment, accounts payable accruals were overstated by $3,647,794 in the Highway Fund due to processing the same amounts manually and electronically.

Recommendation:

We recommend that Department of Transportation accountants review accrued amounts for reasonableness.

<u>Auditee Response/Corrective Action Plan</u>:

We concur, the Department of Transportation will review the procedures for accruals to insure they are captured and reported correctly.

(98-11) Office of the Treasurer of State

<u>Finding</u>: Untimely clearing of reconciling items (Prior Year Finding)

An audit adjustment was made to record $13 million of unrecorded deposits that were reconciling items for the State's cash deposit accounts. Many of the items had been on the reconciliation lists for many months.

<u>Recommendation</u>:

In order to ensure that the State of Maine's cash is correctly and promptly recorded, any deposits or withdrawals in bank accounts that have not been recorded on the State's financial records should be investigated and cleared within a short period of time.

<u>Auditee Response/Corrective Action Plan</u>:

With thousands of transactions to monitor each month, resolution of unreconciled items is a continuous and unending process in the Treasurer's Office. At the end of each fiscal year there are always agencies that do not submit cash receipts to Treasury in time to book all cash transactions into the old year records. Of the $13 million of unrecorded deposits referred to in the audit findings, $7,000,000 was a single deposit on 6/30/98 that was not identified and posted until 7/14/98. Another $5,000,000 was a second deposit of funds for which no cash receipt was received by cutoff time. Although dependent on the efforts of other agencies to improve this, Treasury will make every effort to identify these sooner in the future.

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STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998

Section III - Federal Award Findings and Questioned Costs

U.S. DEPARTMENT OF DEFENSE

Department of Defense, Veterans and Emergency Management
(98-12) Military Bureau

National Guard Military Operations and Maintenance Projects
CFDA#: 12.401 **Questioned Costs:** $17,004

Federal Award Number: DAHA17-98-2-1000

Finding: Failure to match with State funds

The State match for Appendix 2, the Environmental function of the Master Cooperative Agreement for federal fiscal year 1998 was $17,004. We could not find any record that the State match had been made.

Recommendation:

We recommend that the Department of Defense, Veterans and Emergency Management document that the State match is made as required.

Auditee Response/Corrective Action Plan:

Contact Person: CPT Dwaine Drummond, DVEM

The finding is a legitimate concern. The State share of Appendix 2 to the Master Cooperative Agreement has historically been funded by depositing State funds into the 013 Federal Reimbursement account. While the influx of cash into the 013 Federal Reimbursement account provides a means to meet the State share, the Department has not adequately documented all these transitions.

Corrective Action Plan:

1. *The Department (Central Admin Services) will compile all necessary data to accurately determine the status of the required State matching funds.*
2. *Based on this determination, the Department will undertake any additional corrective actions as appropriate.*

Anticipated Completion Date: 1 December 1999

Department of Defense, Veterans and Emergency Management
(98-13) Military Bureau

National Guard Military Operations and Maintenance Projects
CFDA#: 12.401 **Questioned Costs:** None

Federal Award Number: DAHA17-98-2-1000

Finding: Non-compliance with suspension and debarment certification and bonding requirements

The Department of Defense, Veterans and Emergency Management could not provide a Certificate of Suspension or Debarment, as required by OMB Circular A-133, from one service provider. The Department could not provide documentation that the service provider was bonded, as required by the contract with the provider.

Recommendation:

We recommend that contracting officials obtain evidence of bonding prior to the award of a contract, and Certifications of Suspension and Debarment for contracts of $100,000 or more.

Auditee Response/Corrective Action Plan:

Contact Person: CPT Dwaine Drummond, DVEM

I concur with this finding. OMB Circular A-133 provides guidance on the preparation and execution of contracts of $100,000 or more. The department has complied on all non-service

(i.e. repair and construction contracts), but failed to include the required clauses in service contracts.

Although, the Site Manager requested proof of bonding, the contractor deferred the issue to her attorney. Subsequently, the Department determined that legal action was not feasible, as the contract was due to expire in August of the current year.

Corrective Action Plan:

1. *The Department will ensure that all contracts of $100,000 or more in value will include all required clauses, per OMB Circular A-133.*
2. *The Department has added the subject clauses to its electronic media copy of the standard contract and provisions, and will make distribution to all affected personnel.*
3. *Future contractors will be required to provide the proof of bonding prior to execution by the approving authority.*

Anticipated Completion Date: 1 September 1999

Department of Defense, Veterans and Emergency Management
(98-14) Military Bureau

National Guard Military Operations and Maintenance Projects
CFDA#: 12.401 **Questioned Costs:** None

Federal Award Number: DAHA17-98-2-1000

Finding: Cash management procedures

The Department of Defense, Veterans and Emergency Management may request federal cash in advance of, or as reimbursement for, expenditures made under federal grant awards.

The Department did not submit its request for advance cash 30 days prior to the beginning of the period for which the cash was needed, as required by Section 502 of the Master Cooperative Agreement between the U.S. National Guard Bureau and the State of Maine. Requests were submitted such that funds were held by the State from 27 to 59 days prior to disbursement.

The memo designed by the State to request advance cash from the Air Guard did not contain three items of information as required by Section 12-5 of National Guard Regulation 5-1/Air Guard Instruction 63-101.

The Department did not use State funds when making payment to be reimbursed, also required by Section 12-5.

Recommendation:

We recommend that cash management procedures be instituted which will minimize the time between draw down and the expenditure of funds. We recommend that the memo requesting advance payments be modified to conform to National Guard Regulation 5-1/Air National Guard Instruction 63-101. We recommend that State funds be used to pay expenditures when the reimbursement method for cash drawdowns is used.

Auditee Response/Corrective Action Plan:

Contact Person: Mr. Roland Leach, Public Safety and CPT Dwaine Drummond, DVEM

I concur with the finding. The Department recognizes the requirement to efficiently manage Federal dollars, in accordance with NGR 5-1 and NGI 63-101. Due to the recent institution of electronic payment, the State has received funds in a more timely manner than previously was possible. The State must make adjustments to the Advance payment program to ensure compliance.

Corrective Action Plan:

1. *The Department will consolidate requests for advances at the proposed Office of Cooperative Agreements in order to provide maximum oversight and minimize excess cash on hand.*

2. *CPT Drummond will coordinate with the USPFO for Maine, to determine the appropriate format for submission of Advance Payment Plans and requests for payments under the approved plans.*

3. *The ability for the State to pay all invoices and requisitions for payment, without utilizing the 013 account is questionable at best. The National Guard Bureau will authorize advance payment against 100% reimbursable categories only. All other categories of federal support must utilize the reimbursement process.*

Anticipated Completion Date: 1 October 1999: Actions 1 & 2, 1 July 2000: Action 3

U.S. DEPARTMENT OF DEFENSE

Department of Defense, Veterans and Emergency Management
(98-15) Military Bureau

National Guard Military Operations and Maintenance Projects
CFDA#: 12.401 **Questioned Costs:** None

Federal Award Number: DAHA17-98-2-1000

Finding: Incorrect Schedule of Expenditures of Federal Awards (Prior Year Finding)

Office of Management and Budget Circular A-133, Section 310 b(3) requires the Schedule of Expenditures of Federal Awards to provide the total federal awards expended for each federal program. The Schedule was submitted to the Bureau of Accounts and Controls showing federal expenditures of $5,008,262. The audit determined that the federal expenditures should have been reported as $8,283,114. No "in kind' expenditures had been included in the report.

Recommendation:

We recommend that action be taken to ensure that Cooperative Agreement expenditures can be reported accurately on the Schedule of Expenditures of Federal Awards .

Auditee Response/Corrective Action Plan:

Contact Person: Mr. Roland Leach and CPT Dwaine Drummond, DVEM

I concur with the finding. DVEM has not previously qualified under the Single Audit Act for review due to the total value of the grant. The Loring Rebuild Center increased the grant value to $8,283,114 for fiscal year 98. Personnel at the Department of Public Safety, and DVEM had not collaborated on grant-related issues, prior to submission of the Schedule of Expenditures of Federal Awards. Confusion on reportable categories led to the submission of inaccurate data.

Corrective Action Plan:

1. *Public Safety will coordinate the annual submission of the Schedule of expenditures of Federal Awards with the OCA manager to determine the appropriate data required.*
2. *The USPFO for Maine will review the data, prior to submission to the Bureau of Accounts and Controls.*

Anticipated Completion Date: 1 January 2000

U.S. DEPARTMENT OF EDUCATION

Department of Education
(98-16) Bureau of Compensatory Education

Title I Grants to Local Educational Agencies
CFDA#: 84.010 **Questioned Costs:** $13,999

Federal Award Number: S010A70019-97 A&C

Finding: Non-compliance with period of availability requirement

Funds awarded under the Title I Program remain available for obligation for a period of twelve months after the end of the funding period. Obligations mean the amounts of orders placed, contracts, and subgrants awarded, goods and services received, and similar transactions. The State requires subrecipients to report the unexpended portions of their grant awards on an annual basis. The unexpended portions are usually allowed to be carried. During the 1998 fiscal year a Local Educational Agency (LEA) reported that it had funds from previous grant years that had been encumbered to pay expected settlements from employee contract negotiations. The expected settlements did not materialize. The LEA requested and received permission to use these amounts during the current period. The period of availability for a portion ($13,999) of these funds had expired.

Recommendation:

We recommend that the Bureau of Compensatory Education seek the return of $13,999 from the LEA and remit those funds to the federal government.

Auditee Response/Corrective Action Plan:

As recommended by the auditor, the Office of Compensatory Education has requested the return of $13,999 from the subrecipient in question. This amount, when received by the Department, will be returned to the U.S. Department of Education. The Office of Compensatory Education does maintain internal policies and procedures to monitor the 27 month period of grant availability, and believes this oversight was a one time occurrence. This finding should not be repeated in subsequent years.

U.S. DEPARTMENT OF EDUCATION

Department of Education
(98-17) Bureau of Compensatory Education

Title I Grants to Local Educational Agencies
Migrant Education – Basic State Grant Program
CFDA: 84.011, 84.010 **Questioned Costs:** None

Federal Award Number: SO10A 700 19-97A, S011A 700 19

Finding: Compliance with comparability requirements not reviewed

Title I, § 1120A (c) of the Elementary and Secondary Education Act places upon the State the responsibility for ensuring that Local Educational Agencies (LEAs) comply with the comparability requirements. The LEAs must develop procedures for complying and must maintain records that are updated biennially to document compliance.

The requirements state that an LEA may receive funds only if State and local funds will be used in participating schools to provide services that, taken as a whole, are at least comparable to services that the LEA is providing in schools not receiving funds.

The Bureau of Compensatory Education does not include in its monitoring program procedures to determine the LEAs compliance with the comparability requirements. LEAs have not been informed of the requirement.

Recommendation:

We recommend that the Bureau of Compensatory Education advise LEAs of the requirement and determine and document LEA compliance.

Auditee Response/Corrective Action Plan:

Title I program staff discovered the comparability question was inadvertently omitted in the "LEA Documentation" section of the Coordinated IASA Program Pre-Review Report when the report was updated for FY'98. The pre-review report was immediately revised and the comparability question added when the omission was brought to their attention.

In the future, it will be the responsibility of Title I program staff to ensure findings receiving corrective action do not continue to recur in subsequent years and that corrective action is completed in an appropriate manner or in a manner consistent with applicable federal regulations.

U.S. DEPARTMENT OF EDUCATION

Department of Education
(98-18) Bureau of Compensatory Education

Migrant Education – Basic State Grant Program
<u>CFDA</u>#: 84.011 **<u>Questioned Costs</u>:** None

Federal Award Number: S011A70019

<u>Finding</u>: Eligible children count not verifiable

Title I, Part C §1304 (c)(7) of the Elementary and Secondary Education Act requires the state to implement procedures to be able to assist the U.S. Department of Education in determining, through unduplicated counts, the number of eligible migratory children in each of two categories. Inaccurate counts would effect subsequent years allocations. It appears that the state does in fact have procedures and software capable of obtaining the necessary information. However, the counts contained in the reports filed for the 97-98 reporting year could not be traced to records of counts by Local Educational Agencies (LEA). Subsidiary data by LEA was not able to be compared to the summary data since the reports were not requested at the time the summary data was run. The data could not be recreated at a later date.

<u>Recommendation</u>:

We recommend that subsidiary data be requested at the time summary data information is obtained and that the subsidiary data be traced to the summary data and retained.

<u>Auditee Response/Corrective Action Plan</u>:

Title I program staff will request subsidiary data from subrecipients on a timely basis. The data will be maintained in the Migrant Education Office as backup to support the number of eligible migratory children reported to the U.S. Department of Education pursuant to Title I, Part C, Section 1304(C)(7) of ESEA.

Department of Education
(98-19) Bureau of Special Services

Special Education-Grants to States
<u>CFDA</u>#: 84.027 **<u>Questioned Costs</u>:** $33,777

Federal Award Number: 027A70109

U.S. DEPARTMENT OF EDUCATION

<u>Finding</u>: Excessive grant funds applied to administrative costs (Prior Year Finding)

Per 34 CFR § 300.620, the amount of Individuals with Disabilities Education Act (IDEA) Part B grant money allocable to the State's administrative expenses is limited to five percent of the entire grant.

The grant award for fiscal year 1996 was $12,843,687. As of June 30, 1998, $6,785,961 of this amount had been expended on administration at the State level. The administration expenditures exceeded the five percent threshhold by $33,777.

<u>Recommendation</u>:

We recommend that the Department of Education ensure compliance with federally mandated expenditure threshholds.

<u>Auditee Response/Corrective Action Plan</u>:

Currently, individual account managers in Finance are monitoring federal programs to ensure federal funds are allocated in accordance with federally mandated thresholds. This prior year finding was corrected in August, 1998(FY'99) after the close of FY'98 when it was brought to our attention. The finding, therefore, was not and could not be corrected during FY'98.

Department of Education
(98-20) Bureau of Special Services

Special Education: Grants to States
<u>CFDA</u>#: 84.027 **<u>Questioned Costs</u>:** None

Federal Award Number: 027A70109

<u>Finding</u>: Local educational agency maintenance of effort not monitored

The Department of Education gathers information on local special education expenditures from the State's public schools. However, the Department does not monitor changes in such level of effort from year to year. Of 35 Local Education Agencies (LEA) that we examined, five expended less in fiscal year 1998 than they had in the preceding year. One of the five showed a significantly decreased child count. The other four decreases could not be explained.

U.S. DEPARTMENT OF EDUCATION

Title 34 CFR § 300.231, states "funds provided to an LEAs…may not be used to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds below the level of those expenditures for the preceding fiscal year," except under certain conditions. Furthermore, "The LEA must have on file with the SEA [state educational agency] information to demonstrate that the requirements…are met."

Recommendation:

We recommend that the Department of Education ensure compliance with the maintenance of effort requirement. This would also help to ensure compliance with 34 CFR § 300.154, "Maintenance of State financial support," which outlines a similar maintenance of effort requirement for the State.

Auditee Response/Corrective Action Plan:

The Office of Special Services has implemented policies and procedures to monitor subrecipient maintenance of effort, however, a lack of adequate personnel resources had not allowed more frequent monitoring to occur as recommended by the auditor. Existing staff will continue to monitor maintenance of effort on a regular basis by comparing current year expenditures with prior year expenditures and to analyze various fluctuations in expenditures from year to year to ascertain whether subrecipients are complying with the supplement versus supplant provision of the federal regulations. Subrecipients in non-compliance with the maintenance of effort requirement will be contacted based on the results of those analyses.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Department of Human Services
(98-21) Bureau of Child and Family Services

Child Care and Development Block Grant
CFDA#: 93.575 **Questioned Costs** : $58,567

Federal Award Number: G9801MECCDG & G96B1MECARE

Finding: Payroll costs not equitably distributed

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

The Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State and Local Governments*, allows costs to be charged to a federal program only to the extent of the benefit received. These costs may be either direct costs or the allocable share of any indirect costs.

The Department charged payroll costs to the Child Care and Development Block Grant for two employees who perform administrative duties for several federal and/or State programs. We question $58,567 in payroll costs, based on the estimated percentage of time these employees worked on other programs.

Recommendation:

We recommend that the Department allocate salaries and fringe benefits to programs based on the benefit received.

Auditee Response/Corrective Action Plan:

Contact Person: Jeannette Talbot

Auditee Response:

The State of Maine's budget system does not allow individual positions to be designated to more than one federal and/or state program. The employees whose salaries are cited in this finding are Auditing, Contracting & Licensing Service Center contract staff who are responsible for a portion of the Service Center's child care service contracts. Contracts for child care services include several sources of state and federal funds.

Corrective Action Plan:

The Auditing, Contracting & Licensing Service Center is implementing a cost allocation plan for several positions in the Service Center in SFY 2000. All state and federally funded contract staff responsible for child care service contracts are included in the cost allocation plan. Cost allocated staff are required to complete a separate time sheet that delineats all of their work activities and the appropriate percentage of the cost to be applied to each funding source for each activity.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Department of Human Services
(98-22) Bureau of Child and Family Services

Child Care Mandatory and Matching Funds
of the Child Care and Development Fund
CFDA#: 93.596 **Questioned Costs:** $8,880

Federal Award Number: G9701MECCDGF, G9801MECCDF

Finding: Expenditures made to child day care providers with expired licenses

Title 45 CFR Subpart E § 98.40 requires compliance with State licensing and regulatory provisions. Title 22 MRSA § 7801 requires licensing of certain child day care providers. It is the policy of the Department of Human Services that a provider who submits a timely license renewal application retains a valid license.

Of 39 expenditures tested, 15 were made to child day care providers that were required to be licensed. Three of these 15 were made to providers who did not have a renewal application on file at the time of payment We questioned $1,866, the amount of these expenditures.

We calculated the ratio of payments to providers required to be licensed to payments to providers tested, applied this ratio to the total population of $5,312,775, and projected that the population that was required to be licensed represented $4,030,201 in expenditures. We also calculated the ratio of payments to providers who were not licensed to payments to providers in our test who were required to be licensed. Applying this ratio to the $4,030,201 in projected expenditures would result in a projected questioned cost of $1,195,804.

In a second test (from a different population) we determined that one of 25 expenditures tested was made to a provider that did not have a renewal application on file at the time of the payment. We question $7,014, the amount of this payment.

We calculated the ratio of this cost to the total test population of $568,219 and applied it to the total population of $5,809,696, which resulted in a projected questioned cost of $71,714.

When combined, possible projected questioned costs would be $1,267,518.

Recommendation:

We recommend that the Department make payments only to licensed day care providers.

<u>Auditee Response/Corrective Action Plan</u>:

Contract Person: Conrad Thibault

Corrective Action Plan:

The Auditing, Contracting & Licensing Service Center's child care licensing process has been automated in the Department's MACWIS system. The automated system produces a report of providers who are due for renewal 90 days prior to the expiration of current licenses/certifications. Providers are mailed renewal packages at that time to afford them adequate time to submit their licensing/certification renewal.

The Auditing, Contracting & Licensing Service Center's Licensing Division will revise the form letter that accompanies renewal packages by October 1, 1999 to alert providers that future Child Care and Development Fund payments may be affected by late submission of renewal applications.

The Auditing, Contracting & Licensing Service Center will also request a modification to the MACWIS system to alert the system's Contract Payment Module of overdue renewal applications for contracted child care programs.

Department of Human Services
(98-23) Bureau of Child and Family Services

Child Care Mandatory and Matching Funds
of the Child Care and Development Fund
<u>CFDA</u>#: 93.596 **<u>Questioned Costs</u>:** $296

Federal Award Number: G9701MECCDF, G9801MECCDF

<u>Finding</u>: Payments to providers in excess of authorized rates

Title 45 CFR § 255.4 (a) requires that the Department of Human Services utilize day care provider rates as established in the State Supportive Services Plan.

The Department made expenditures in excess of authorized amounts. We found errors in computation and incorrect rate application in 8 out of 39 payments to providers. The total incorrect portion of these expenditures equals $296. If the ratio of these costs to the total test population of $8,290 is applied to the total population of $5,213,775, the result would be a projected questioned cost of $189,727.

Recommendation:

We recommend that the Department ensure that payments to day care providers be made in accordance with the State plan.

Auditee Response/Corrective Action Plan:

Contact Person: Jeannette Talbot

Corrective Action Plan:

The Auditing, Contracting & Licensing Service Center completed a child care market rate survey in 1997, to be implemented in FY 1998. The Department's Regional TANF/ASPIRE staff were provided the new market rates for their use prior to being provided training on the use of the market rate.

Instruction has been provided to all staff who authorize Child Care and Development Fund child care payments. The Service Center will issue an Action Transmittal by October 1, 1999 to all staff who authorize Child Care and Development Fund child care payments reiterating the requirement to adhere to the market rates. Copies of child care market rates also will be provided to all staff who process Child Care and Development Fund payments as an additional control on adhering to the market rate maximum payment rates.

Department of Human Services
(98-24) Bureau of Child and Family Services

Child Care Mandatory and Matching Funds of the
Child Care and Development Fund
CFDA#: 93.596 **Questioned Costs:** $33

Federal Award Number: G9701MECCDF, G9801MECCDF

Finding: Insufficient supporting documentation

The Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, requires that costs must be adequately documented to be allowable.

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The Department of Human Services did not have sufficient documentation to support one provider payment. Without proper support for the expenditure, we question the associated cost of $33. If the ratio of this cost to the total population of $8,323 is applied to total provider payments of $5,312,775, the result would be a projected questioned cost of $21,064.

<u>Recommendation</u>:

We recommend that the Department maintain sufficient documentation in support of all expenditures.

<u>Auditee Response/Corrective Action Plan</u>:

Contact Persons: (Mandatory Fund) Robert Nadeau and (Matching Fund) Jeannette Talbot

Corrective Action Plan:

The Department will maintain documentation to support all expenditures.

Department of Human Services
(98-25) Bureau of Child and Family Services

Foster Care – Title IV E
<u>CFDA</u>#: 93.658 **<u>Questioned Costs</u>:** $234

Federal Award Number: 9701ME1401, 9801ME1401

<u>Finding</u>: Payments to unlicensed foster care homes

The Department of Human Services made payments to unlicensed foster care homes, in violation of 22 MRSA § 7801 and Department regulations. Three of forty payments tested were made to foster care homes that had previously been licensed but did not submit renewal applications on time.

Costs of $234, the total of the three payments, are questioned. If the ratio of these costs to the total test population of $23,209 is applied to the total population of $9,055,296, the result would be a projected questioned cost of $91,164.

Recommendation:

We recommend that DHS ensure that payments are made only to licensed foster care homes.

Auditee Response/Corrective Action Plan:

The Bureau strives to have children placed only in licensed homes however, there are situations in which the child (adolescents) self place and the home chooses not to become licensed.

In situations where a licensed home does not get its application in on time, the Bureau will develop a follow-up mechanism to call and remind the foster parent.

Even in such situations, the circumstances are reviewed by Central Office staff by a request for approval of an unlicensed placement.

Department of Human Services
(98-26) Bureau of Child and Family Services

Social Services Block Grant
CFDA#: 93.667 **Questioned Costs:** None

Federal Award Number: SOSR97, SOSR98

Finding: Pass-through responsibilities not met and missing Quarterly Financial Reports

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* Subpart D, states "A pass-through entity shall perform the following for the Federal awards it makes: (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, . .award". Of 26 contracts reviewed, 22 listed an incorrect CFDA number.

Rider B of each contractor's standard contract states, "Payments to the contractor shall be contingent upon receipt and approval of financial reports submitted by the contractor and required by the Department." Of the 18 contracts reviewed, 6 were missing one or more required reports.

Recommendation:

We recommend that the Department provide correct CFDA numbers and obtain required reports from the contractors.

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: Jeannette Talbot

Corrective Action Plan:

Missing Quarterly Reports:

The Service Center will issue an Action Transmittal by October 1, 1999 to all contract agencies reiterating the requirement to adhere to the requirement and schedule for submission of financial reports, and the payment penalties for non adherence.

The Service Center's management will review the feasibility of utilizing the MACWIS system to monitor timely submission of provider financial reports by October 1, 1999.

Contract Financial Reports are now maintained in a central file by the Planning & Research Associate who oversees the contract payment system, thus reducing the possibility of misplacing the reports. The summary information on the Financial Reports is also entered into the electronic contract payment system. The Service Center will be requesting a "system enhancement" to the contract payment system to flag contracts with delinquent financial Reports when payments are being authorized.

Inaccurate CFDA#:

The Service Center's Financial Manager will issue a Memorandum to all Contract Unit staff with all applicable CFDA numbers, and will issue a Memorandum to the Contract Services Unit Manager to ensure that CFDA numbers are corrected prior to contract approval.

Department of Human Services
(98-27) Bureau of Child and Family Services

Various federal programs
<u>CFDA</u>#: Various **<u>Questioned Costs</u>:** None

Federal Award Number: N/A

<u>Finding</u>: Non-compliance with suspension and debarment requirements

The Department of Human Services cannot assure compliance with the suspension and debarment requirements of 45 CFR § 76, 7 CFR 3017 or OMB Circular A-102 and A-110. These regulations prohibit an agency from contracting with parties that are suspended or

debarred, and require certification from subrecipients and contractors that they and their principals are not suspended or debarred.

We identified four programs that could not assure compliance. Personnel of one Bureau were not aware of the requirement.

CFDA#	Program Name	Bureau/Division
93.044	Title III B - Supportive Services and Senior Centers	Bureau of Elder and Adult Services
93.045	Title III C - Nutrition Services	Bureau of Elder and Adult Services
93.991	Preventive Health & Human Services Block Grant	Bureau of Health
10.557	Supplemental Food Program for Women, Infants and Children	Bureau of Health

Recommendation:

We recommend that the Department require certifications from its contractors and subgrantees that they and their principals are not suspended or debarred.

Auditee Response/Corrective Action Plan:

Contact Persons: *93.044 &93.045, Thomas Randall*
93.991, Warren Bartlett
10.557, Reinhold Bansmer

The Department of Human Services concurs with this finding and has included in Rider "C" of all the agreements/contracts a statement concerning debarment and suspensions..

Department of Human Services
(98-28) Bureau of Child and Family Services

Various federal programs
CFDA#: Various **Questioned Costs:** None

Federal Award Number: N/A

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding: Non-compliance with cash management requirements

The Department of Human Services did not minimize time elapsed between the drawdown of Federal funds and the expenditure of those funds by the Department or its subgrantees, as required by 45 CFR § 92, 45 CFR § 98 and 31 CFR § 205.

We identified seven programs that were in non-compliance:

CFDA#	Grant Name	Bureau/Division
Grantee:		
93.575	Child Care & Development BG	Bureau of Child and Family Services
93.044	Title III Part B Support Services	Division of Financial Services
93.045	Title III Part C Nutrition Services	Division of Financial Services
93.777	State Survey and Certification of Health Care Providers	Division of Financial Services
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Bureau of Child and Family Services
93.569	Community Service Block Grant	Bureau of Child and Family Services
Subgrantee:		
93.268	Immunization Grants	Bureau of Health
93.991	Preventive Health - Health Services BG	Bureau of Health

The average days' cash on hand ranged from $12,861 for 5.41 days (CFDA# 93.569) to $1,955,994 for 114.64 days (CFDA# 93.596).

The materiality of the passed-through amounts ranged from $272,838 out of $5.3 million of expenditures (CFDA# 93.268) to $5.8 million out of $7.8 million of expenditures (CFDA# 93.596).

Recommendation:

We recommend that the Department review its cash needs and those of its subgrantees, and establish drawdown and payment schedules accordingly.

Auditee Response/Corrective Action Plan:

Contact Person: Pat Shaw

The Department of Human Services agrees that cash drawdowns should be as close as administratively feasible to the actual cash outlay. Every effort will be made to be in compliance with the Federal regulations concerning cash drawdowns.

Department of Human Services
(98-29) Bureau of Health
Division of Financial Services
Bureau of Child and Family Services

Preventive Health and Health Services Block Grant
CFDA#: 93.991 **Questioned Costs:** $32,282

Federal Award Number: 97-B1-ME-FRVS-03, 98-B1-ME-PRVS-03

Finding: Noncompliance with earmarking requirements

The Department of Human Services (DHS) did not expend $32,282 for victims of sexual offenses as required by the grant award document. During State fiscal year 1998, all of the subgranted funds were targeted for school and community education programs.

Recommendation:

We recommend that earmarked block grant funds be expended in accordance with the special terms and conditions cited in the grant award document. We further recommend that the State separately account for data used to support the source and application of earmarked funds.

Auditee Response/Corrective Action Plan:

Contact Person: Jeannette Talbot

The Department of Human Services does not concur with this audit finding. The Auditing, Contracting and Licensing Service Center did expend $32,282 for Victims of Sexual Offenses through the regular grant process with the various agencies throughout the state. The details are on file in the Auditing, Contracting and Licensing Center.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Department of Human Services
(98-30) Audit, Contracting and Licensing Service Center

Social Services Block Grant
<u>CFDA</u>#: 93.667 **<u>Questioned Costs</u>:** $50,588

Federal Award Number: SOSR97, SOSR98

<u>Finding</u>: Payroll costs not equitably distributed

Office of Management and Budget Circular A-87, *Cost Principles for State and Local Governments*, Attachment A, allows costs to be charged to a federal program only to the extent of the benefit. These costs may be either direct costs or the allocable share of any indirect costs.

The Department charged $50,588 in payroll costs to the Social Service Block Grant for an employee who performed administrative duties for the Foster Care Program.

<u>Recommendation</u>:

We recommend that the Department allocate salaries and fringe benefits to programs based on the benefit received.

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: Susan Harlor and Margaret Semple

Corrective Action Plan:

The position in question is in the Bureau of Child & Family Services. The Bureau management will designate a Bureau account to allocate the position to, and initiate a transfer of expenses for SFY 1999 and FY 2000. A Part II State Budget request will be submitted to the 2000 Legislative session to formally assign the position to a Bureau of Child & Family Services account effective July 1, 2000.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Department of Human Services
(98-31) Division of Financial Services

Medical Assistance Program
CFDA#: 93.778 **Questioned Costs:** None

Federal Award Number: 05-9805ME5028

Finding: Federal share of provider overpayments not calculated correctly, refunds not reported timely (Prior Year Finding)

Title 42 CFR 433.312 states that an agency must refund the federal share of overpayments that is subject to recovery to HCFA (Health Care Financing Administration) through a credit on its Quarterly Expenditure Report HCFA-64 within 60 days from discovery.

Of 40 recovered provider overpayments tested:

- The federal share of 26 was calculated incorrectly. For 21, the federal share was too high because the Department of Human Services (DHS) used current match rates instead of the rates that were in effect at the time the provider overpayments were made. For 5, DHS based the refund on total provider debt. This included residential care which was funded entirely by the State and PNMI services.

- For 23 recoveries, the federal share was not refunded timely.

- For 2 recoveries, the federal share was not refunded at all because PNMI services were erroneously treated as boarding home services.

Recommendation:

We recommend that DHS develop a fully automated process to make the necessary calculations and modify procedures to ensure that all overpayments are processed timely.

Auditee Response/Corrective Action Plan:

Contact Person: Pat Shaw

The Department of Human Services does not concur with all the elements of this finding. The policy referred to in the finding is a HCFA policy concerning using the Federal matching rates that were in effect during the period when the overpayment occurred. These calculations were

applied on refunds relating to nursing homes, nursing MR's, hospitals, ICF-MR's and Development Training Facilities only. All other types of providers were not included in these calculations because they represented a small portion of payments to providers. This exclusion has been acceptable to HCFA due to the issue of materiality.

The issue of timeliness in reporting overpayments to HCFA via the HCFA report is misleading because of two factors. Firstly, all overpayments are credited to the appropriate accounts on a monthly basis, and overpayments are not reported in a timely manner. Since all overpayments are credited back to the appropriate accounts on a monthly basis, we feel that we are meeting the 60-day rule for overpayments.

The last two issues are related in that they both deal with boarding home services and PNMI's. The Bureau of Medical Services provides the Division of Financial Services information from the Maine Medicaid Information System regarding overpayments. BMS has an adjusting unit that determines what the appropriate breakdown should be. This action is performed after the fact.

The Bureau of Medical Services is in the process of acquiring a new Medicaid system which will provide a much better automated process to handle a myriad of problems including those in this finding.

Department of Human Services
(98-32) Division of Financial Services

Immunization Grants
CFDA#: 93.268 **Questioned Costs: $**106,500

Federal Award Number: H23/CCH104482-09

Finding: No supporting documentation for claimed program expenditures

In accordance with the special terms and conditions contained in the Notice of Grant Award, the Immunization Grants Program is required to submit annually a standard form 269-A (Financial Status Report). We examined reports for calendar years 1997 and 1998.

The Department could not support program costs of $106,500 claimed in calendar year 1998. We therefore question costs in that amount.

In addition, in calendar year 1997, costs totaling $90,731 were deducted from total amounts claimed. These costs were paid by Medicaid but no support was on file to allow us to determine the propriety of the adjustment.

Recommendation:

We recommend that DHS claim only expenditures that can be supported by the accounting records.

Auditee Response/Corrective Action Plan:

Contact Person: Jeff Pettengill

The Department of Human Services agrees that it should only claim those expenditures for which there is supporting documentation. The authorization for these adjustments to the expenditures came in the form of a verbal request from the program manager. In the future, the account manager will maintain documentation supporting adjustments to accounting records made in the preparation of Financial Status Reports.

Department of Human Services
(98-33) Division of Financial Services

Temporary Assistance for Needy Families
CFDA#: 93.558 **Questioned Costs:** None

Federal Award Number: G9801METANF

Finding: Undocumented administrative expense and maintenance of effort amounts

The Department of Human Services (DHS) did not retain information to support amounts reported on the federal fiscal year 1997 ACF-196 Financial Report. Information which could not be verified included administrative expenditures and the State's maintenance of effort expenditures.

Although calculated amounts appeared to satisfy federal requirements, compliance could not be tested because DHS did not retain supporting worksheets which detailed accounts and amounts for the September 1997 report. However, supporting information for administrative and MOE expenditures on a subsequent quarterly report was available.

Title 42 USC 604(b)(1) and (2) set limitations and administrative expenditures (15%). Title 42 USC 609(a)(7) establishes the MOE requirement.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Recommendation:

We recommend that the Department retain information to support all financial reports.

Auditee Response/Corrective Action Plan:

Contact Person: Carol Bean

The Department of Human Services concurs with the audit finding regarding administrative and maintenance of effort expenditures. DHS will record and retain documentation used to satisfy maintenance of effort requirements for federal fiscal year 97. DHS will compile and retain supporting documentation for administrative expenditures and compile maintenance of effort worksheet for federal fiscal year 97 and provide to Department of Audit before 10/30/99.

Department of Human Services
(98-34) Division of Financial Services

Various federal programs
CFDA#: Various **Questioned Costs:** None

Federal Award Number: N/A

Finding: Unsupported disbursement information reported to the federal government (Prior Year Finding)

The Department of Human Services could not support the disbursements reported on the required quarterly Federal Cash Transactions Report (PMS-272). Health and Human Services requires each recipient of federal awards to submit this report. The report provides information regarding disbursements and cash advances to recipients.

Recommendation:

We recommend that DHS prepare and retain documentation to support disbursements reported on the PMS-272 reports.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Auditee Response/Corrective Action Plan:

Contact Person: Pat Shaw

The Department of Human Services agrees that the information on the PMS-272 Reports should be supported by disbursements that are documented. However, some of the information isn't available at the time of the submission of the PMS-272 Report. In order to provide the most complete cash disbursement info estimates are used for a few programs that haven't submitted final quarterly reports. Every effort is made to report the actual disbursements, and we will endeavor to improve on the reporting process. The Division of Financial Services has added another Account Manager position to the staff which will help in attaining this goal.

Department of Human Services
(98-35) Division of Financial Services

Various federal programs
CFDA#: Various **Questioned Costs:** None

Federal Award Number: N/A

Finding: Schedule of expenditures of federal awards not complete and/or inaccurate

The Department of Human Services (DHS) submitted incomplete and inaccurate expenditure information for its Federal programs to the State Controller to be included in the Schedule of Expenditures of Federal Awards (SEFA). OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* requires entities expending federal awards to be able to provide reasonable assurance that financial statements are reliable. The SEFA could not be relied on as it was prepared.

Deficiencies in the SEFA included the following:

- Child Support Enforcement (CFDA# 93.563) expenditures were reported to be $633,520 rather than $10,707,663. DHS netted the federal share of child support collections against expenditures.

- Immunization Grants (CFDA# 98.268) expenditures as reported did not include the value of vaccines disbursed (approximately $4 million). Additionally, the inventory value of vaccines at fiscal year end was overstated by $927,481.

- TANF (CFDA# 93.558) expenditures were reported as $69,127,262 rather than $70,719,207 a difference of $1,591,945. Part of the original variance was due to a $625,000 transfer to the Social Services Block Grant (CFDA# 93.667) being reported as TANF expenditures.

- State Administrative Matching Grants for the Food Stamp Program (CFDA# 10.561) expenditures were understated by $526,967.

- Child Care and Development Block Grant Fund (CFDA# 93.575) expenditures were understated by $184,282 because five accounts were not included, and overstated by $52,984 because Social Services Block Grant (CFDA# 93.667) expenditures were included in error.

- State Survey and Certification of Health Care Providers (CFDA# 93.777) expenditures were understated by $115,481 because indirect costs were not included.

Additionally, the SEFA did not identify all cost centers. For the TANF program, DHS could not initially identify the accounts used.

The process used by DHS did not provide for supervisory review of program expenditures as reported by individual program accountants.

Recommendation:

We recommend that:

1. the department exercise greater care in the preparation of the SEFA,

2. supervisory accounting personnel review expenditure totals prior to their inclusion in the SEFA,

3. references be provided for each program represented on the SEFA to all of the relevant appropriation accounts and cost centers, and

4. all of the reported SEFA expenditure amounts be reconciled, on an individual program basis, to the State's official accounting records.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: John Mower

The Department of Human Services, Division of Financial Services, concurs with this audit finding. The Department will exercise greater care in preparing the SEFA for SFY 99. The size and complexity of the Department's accounting structure has led to reconciliation difficulties, but a format will be created to link MFASIS expenditures with SEFA figures. Other deficiencies are due to lack of information in preparing this new SEFA form the last 2 years. Sometimes, as in this case, we have to rely on an audit finding as guidance.

As for Item #13, it is difficult to reference multiple cost centers on the current SEFA format. The Department distributes administrative costs via a cost allocation plan which distorts the accounting data when reporting on the SEFA report.

Department of Human Services
(98-36) Division of Financial Services

Various federal programs
<u>CFDA</u>#: Various **<u>Questioned Costs</u>:** None

Federal Award Number: N/A

<u>Finding</u>: Inadequate internal accounting controls associated with the allocation of direct costs to federal grant programs

The Division of Financial Services prepares an annual direct cost allocation plan to distribute charges to federal programs. Supporting cost allocation schedules are the basis for claiming federal matching funds.

The Division does not routinely reconcile the two primary quarterly cost allocation schedules to the State's accounting records, nor does it independently review and approve the schedules. In fiscal year 1998, these schedules were used to allocate $68,542,562.

<u>Recommendation</u>:

We recommend that the Division:

1) reconcile cost allocation schedules to the State's accounting records quarterly, and
2) routinely review and approve supporting schedules.

Auditee Response/Corrective Action Plan:

Contact Person: Burnell D. Bouchard

The Department of Human Services, Division of Financial Services, concurs with this audit finding. The Division will be hiring a new staff person whose responsibility will be the Department's direct and indirect cost allocation plans. Included in this responsibility will be assuring that all schedules will be verified for accuracy and completeness and that the schedules be reconciled to the State's accounting records quarterly and also routinely review and approve supporting schedules. The focus of this position will be to centralize all cost allocation functions.

Department of Human Services
(98-37) Division of Financial Services

Various federal programs
CFDA#: Various **Questioned Costs:** $150,910

Federal Award Number: N/A

Finding: Incorrect allocation of program costs

The Division of Financial Services prepares an annual direct cost allocation plan to charge administrative costs to federal programs. A missing spreadsheet formula, which should have been used to distribute a portion of these costs to the Bureau of Health, resulted in excess costs being charged to the federal programs listed below:

CFDA#	Program Name	Questioned Costs
10.561	State Administrative Matching Grants for Food Stamp Program	$ 48,232
93.558	TANF	46,271
93.778	Medical Assistance Program	56,407
Total		$150,910

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

We determined questioned costs of $150,910 by revising allocation schedule #6 base amounts, multiplying by the appropriate cost allocation factors, and multiplying by the federal share percentage. We compared this to amounts claimed on reports for quarters ending 9/30/97, 12/8/97, 3/31/98 and 6/30/98.

Recommendation:

We recommend that Division personnel review formulas for accuracy and inclusion. We further recommend that Division personnel revise any incorrect cost allocation schedules and adjust any incorrect federal financial reports.

Auditee Response/Corrective Action Plan:

Contact Person: Burnell D. Bouchard

The Department of Human Services, Division of Financial Services, concurs with this audit finding. The Division will be hiring a new staff person for the cost allocation function. This position will be responsible for all aspects of the direct and indirect cost allocation plans. Included in this responsibility will be assuring that all schedules will be verified for accuracy and completeness. The cost allocation schedules affected by this finding will be revised and the necessary adjustments will be made to the respective program's federal reports. These revisions will be done as prior quarter adjustments to the 9/30/99 submissions.

Department of Mental Health, Mental Retardation and Substance Abuse Services
(98-38) Children Services

Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances Grant
CFDA#: 93.104 **Questioned Costs:** None

Federal Award Number: 6HS5SM51411-04-1

Finding: Pass-through responsibilities not met (Prior Year Finding)

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* Subpart D, Section 400(d) requires pass-through entities to perform certain tasks for the Federal awards that it makes. The Department passed-through most of the program funds to subrecipients but did not comply with the requirements that it:

- Identify Federal awards made by CFDA title; and
- Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements.

Recommendation:

We recommend that the Department comply with all applicable federal regulations.

Auditee Response/Corrective Action Plan:

The Department agrees that one recipient agency had excess cash on hand. When we did find out the Department did not make all future contract payments as agreed upon and that is why the Department requested use of the one year no cost extension in the amount of $740,000. The Department will monitor agencies more closely in the future so this doesn't happen again.

Department of Mental Health, Mental Retardation and Substance Abuse Services
(98-39) Children Services

Comprehensive Community Mental Health Services
for Children with Serious Emotional Disturbances
CFDA#: 93.104 **Questioned Costs:** $170,074

Federal Award Number: 6HS5SM51411-04-1

Finding: Indirect cost rate applied incorrectly (Prior Year Finding)

Personnel of the Department of Mental Health, Mental Retardation and Substance Abuse Services applied a negotiated indirect cost rate to federal funds without excluding subawards from the base, as required by the Indirect Cost Rate Agreement.

We determined questioned costs of $170,074 as follows:

We calculated an allowable base for State fiscal year 1998 by deducting subawards from budgeted direct charges, and adding seven twelfths of the 1998 grant year amount to five twelfths of the 1999 grant year amount. We multiplied by the approved rate of 7.1% to determine allowable indirect costs of $8,926, and subtracting this from the $179,000 that the Department charged to the federal grant.

Recommendation:

We recommend that the Department apply the approved cost rate to the correct base and advise program managers of the terms of the rate agreement.

Auditee Response/Corrective Action Plan:

The Department has made arrangements to put back into the grant excess indirect cost for the past two years. Part of the funds were restored to the grant prior to the close of FY 1999 in the amount of $88,187 and the remainder of $255,706 in FY 2000.

Department of Mental Health, Mental Retardation and Substance Abuse Services
(98-40) Office of Substance Abuse

Substance Abuse Prevention and Treatment Block Grant (SAPT)
CFDA # : 93.959 **Questioned Costs**: None

Federal Award Number: 96-B1-MESAPT

Finding: Set aside and period of availability requirements not met; compliance with administrative limits not demonstrated; funds not obligated in period allowed (Prior Year Finding)

Title 42 USC Sections 300x-22 and 300x-62 require that funds be set aside for specific purposes, and that funds be obligated during the first fiscal year of the award. If the funds were obligated in the first year of the award, they must be expended by the end of the succeeding fiscal year.

The Office of Substance Abuse (OSA) did not meet set aside expenditure requirements for Prevention and Treatment activities regarding alcohol or for Primary Prevention programs by an aggregate deficiency of $66,563.

OSA did not plan obligations in a timely manner. As a result, $2,016,199 remained unobligated at September 30, 1996, the fiscal year end. Of the funds obligated, OSA did not expend $38,115 within the two year period allowed.

Title 42 USC Section 300x-31(a) states that "A funding agreement for a grant. . . is that the State involved will not expend more than 5 percent of the grant to pay the costs of administering the grant." Because OSA could not identify the administrative expenditures that were earmarked and charged against the federal fiscal year 1996 block grant, compliance could not be

demonstrated. OSA has since enhanced its accounting system to track expenditures against specific block grants.

Recommendation:

We recommend that the Office of Substance Abuse obligate funds within the time allowed, timely allocate funds to subrecipients so that they may expend funds as required and that OSA monitor the expenditure process to ensure compliance with set aside requirements. We further recommend that OSA implement the new accounting system to support monitoring of expenditures and required set aside allocations for each specific block grant award.

Auditee Response/Corrective Action Plan:

The Office of Substance Abuse has established accounting procedures to improve our ability to monitor and identify administrative expenditures and set-aside allocations for each specific block grant award. The Office of Substance Abuse has taken additional corrective action during State fiscal year 1999 to improve the timing of obligating funds.

Department of Mental Health, Mental Retardation and Substance Abuse Services
(98-41) Office of Substance Abuse

Various federal programs
CFDA#: Various **Questioned Costs:** None

Federal Award Number: N/A

Finding: Non-compliance with cash management requirements

The Department of Mental Health, Mental Retardation and Substance Abuse Services did not minimize time elapsed between the drawdown of federal funds and the expenditure of those funds by the Department or its subgrantees, as required by 31 CFR § 205,45 CFR § 92 and U.S. Treasury Circular 1075. We identified three programs that were in non-compliance:

CFDA#	Program	Bureau
84.186	Safe and Drug Free Schools and Communities	Substance Abuse Services
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	Childrens Services

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.959	Substance Abuse Prevention and Treatment Block Grant	Substance Abuse Services

The principal subrecipient of the Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances program had $1.9 million on hand as of the fiscal year end. Most of the subrecipient's funding came from the Department ($2.5 million for the grant year ended January 1998). The Department itself had a program cash balance of approximately $1 million for 120 days.

Twenty-four of 40 subrecipients of the Safe and Drug Free School program reported cash on hand in excess of what was paid to them in the preceding month. One did not report as required in the period tested. At the State level, Substance Abuse Services wrote checks on average ten days after cash was received. An error resulted in an extra $242,000 drawn in May 1997. The error was discovered in August but funds were not returned. The extra funds were fully disbursed in December.

Subrecipients receive approximately 90% of the Substance Abuse Prevention and Treatment Block Grant. The Department advances these funds on a quarterly basis. At the State level, testing showed excessive cash on hand.

Recommendation:

We recommend that the Department review its cash needs and those of its subgrantees, and establish drawdown and payment schedules accordingly.

Auditee Response/Corrective Action Plan:

CFDA# 84.186 - Safe and Drug Free Schools and Communities

Subrecipients are allowed to set up their own payment schedule (by month) in order to better meet immediate cash needs and are required to submit quarterly cash reports. OSA has had problems in the past with maintaining cash report records at the subrecipient level. We are now tracking reports submitted and balances in order to use as a management tool. This will allow contact with those recipients that have not reported and/or have excess cash on hand. Future payments may also be held until issues are resolved in the appropriate manner.

At the State level, our account for these funds combines two (2) separate grant awards, the Governor's Portion and the SEA/LEA portion. The net cash on hand was at a minimal level, but there were large negative balances in the SEA/LEA lines. A correcting drawdown was made to cover the deficit balances, but we did not return the surplus funds in the Governor's Portion

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lines. Upon review, staff realized that these funds should have been returned instead of held for future payments. If, in the future, there is a material surplus balance, it will be returned to the appropriate Federal grantor agency.

CFDA# 93.959 - Substance Abuse Prevention and Treatment Block Grant

The Office of Substance Abuse is continuing to evaluate and refine our cash management system to ensure compliance with Federal cash management regulations…including the process of adjusting payments to providers based on Quarterly Financial Reports. We believe that improvements have been achieved in the cash management system resulting in a high level of compliance with Treasury Circular 1075. During Fiscal Year 1999, the contract officers were moved from the Service Center back to the Office of Substance Abuse and report to the Fiscal Manager. We believe this change will further improve our ability to monitor and adjust payments to subrecipients as necessary.

We believe that converting all subrecipients to a monthly payment schedule as recommended, would inordinately increase the administrative effort compared to possible benefits. We will review the possibility of converting some of the largest contracts to a monthly payment schedule.

U.S. DEPARTMEMT OF HOUSING AND URBAN DEVELOPMENT

Department of Economic and Community Development
(98-42) Office of Community Development (OCD)

Community Development Block Grant (CDBG)
CFDA#: 14.228 **Questioned Costs:** $187,416

Federal Award Number: B-96-DC-23-0001

Finding: Funds committed before environmental review clearance (Prior Year Finding)

Two of 61 payments examined were for costs incurred prior to Environmental Review Report (ERR) clearance. The payments were in violation of 24 CFR 58.22, which prohibits a recipient from committing CDBG funds until the activity or project has passed ERR clearence.

The two payments totaled $237,216, of which $49,800 are exempt from clearance. We therefore question $187,146.

U.S. DEPARTMEMT OF HOUSING AND URBAN DEVELOPMENT

Recommendation:

We recommend that the Department comply with 24 CFR 58.22 by not committing CDBG funds to projects or activities prior to ERR clearance

Auditee Response/Corrective Action Plan:

1. *Two requests for payment were received prior to the 8/16/97 clearance date, #1 for $44,800 and #2 for $192,416.*

2. *DECD recognized at the time the second request for payment was approved on 8/19/97 that construction activities had occurred prior to the 8/16/97 ERR clearance date.*

3. *This is reflected in a letter… dated 8/20/97. This letter was sent and the request for payment approved with the knowledge and endorsement of (the) Commissioner…*

DECD provided funds to the Town of Fort Kent, knowing of the technical violations, for the following reasons:

Failure to provide the funding for the sewage pretreatment facility would have bankrupted the company, Fort Kent's second largest employer, placing 75 primarily low and moderate-income persons out of work. At the time, Fort Kent's unemployment rate was in excess of 10%

- *Failure to provide the funds would have caused severe financial hardship to farmers in the St. John Valley that had contracted to grow potatoes for (the company). This extremely serious situation would have spread to suppliers who provide seed, fuel and equipment to these farmers.*
- *The request for payment for construction activities was not honored until after the ERR clearance date of 8/16/99. The Environmental Review Record not only demonstrates no*
- *Harmful environmental impact it identifies significant environmental improvements provided by the project.*
- *The community state that the early construction start was imperative to effectively process the upcoming fall potato harvest. DECD was entirely unaware that construction activity had begun as early as mid June. If DECD had known this, it would have halted construction immediately.*
- *As demonstrated by the audit, the commitment of CDBG funds prior to ERR clearance that occurred in Fort Kent is an isolated instance, not evidence of administrative or management shortcomings. This is the only case in 61 examined where this situation took place.*
- *DECD, by its letter to Fort Kent of 8/20/97, acknowledged the situation itself. The Department was well aware of the matter and informed the community of potential consequences at the time of the incident.*

U.S. DEPARTMENT OF LABOR

Department of Labor
(98-43) Bureau of Employment Services

Job Training Partnership Act (JTPA)
CFDA#: 17.246/17.250 **Questioned Costs:** None

Federal Award Number: A-6199-7-00-87-50

Finding: Debarment and suspension certifications not obtained

The Maine Department of Labor did not require each contractor to sign a certificate, as required by 29 CFR 98.510 for fiscal year 1998 contracts. Certificates were obtained for fiscal year 1999 contracts.

Recommendation:

None. Action appears to have been taken.

Auditee Response/Corrective Action Plan:

The Bureau has included as a separate Rider the Certification Regarding Debarment, Suspension and Other Responsibility Matter Form in all contracts commencing July 01, 1998. This was implemented as a result of the oversight of this instrument that was a result of the annual audit for FY 1997 conducted during April to June of 1998.

Department of Labor
(98-44) Bureau of Employment Services

Job Training Partnership Act (JTPA)
CFDA#: 17.246/17.250 **Questioned Costs:** None

Federal Award Number: A-6199-7-00-87-50

Finding: Inadequate subrecipient monitoring (Prior Year Finding)

U.S. DEPARTMENT OF LABOR

The Department of Labor (DOL) did not perform annual on-site monitoring visits as required by 20 CFR 627.475 (b)(5). Three subrecipients were not monitored on-site in fiscal years 1997 or 1998. Three other subrecipients were not monitored on-site in fiscal 1998.

DOL did not ensure that corrective action was instituted on all subrecipient findings within six months of receiving an audit report, as required by 20 CFR 627.48 and OMB Circular A-133. DOL has not determined that three subrecipients took corrective action on reportable conditions and material weaknesses.

No Bureau within the Department has been assigned the responsibility to follow up on audit findings of subrecipients that administratively report to the 12 County Service Delivery Area.

Recommendation:

We recommend that DOL perform annual on-site monitoring visits of subrecipients.

We further recommend that DOL follow up on subrecipient audit findings as required.

Auditee Response/Corrective Action Plan:

Contact Persons: *Rose M. Bailey Re. OAS*
Barry Martin Re. BES

Corrective Action Plan:

The following regards the monitoring of service providers via sub-grants from the 12-County Service Delivery Area (SDA) administered through the Workforce Development Centers Administrative Office (WDCAO).

The Office of Administrative Services will schedule monitoring visits annually to comply with OMB Circular A-133. Monitoring of the three subrecipients for whom OAS is responsible was performed during the state fiscal year 1999.

The OAS does review the Schedule of Findings and Questioned Costs for reportable conditions noted in the Independent Audit Reports of each subrecipient. However, of the three subrecipients monitored by the OAS, only one had a reportable condition that may impact Department of Labor programs. These conditions were also noted in the onsite monitoring performed by OAS this year, which included a subsequent follow-up visit to the subrecipient.

The OAS will work with the Workforce Development Center Administrative Office and the Bureau of Employment Services during state fiscal year 2000 to develop a departmental policy for annual subrecipient monitoring and follow-up on all independent audit findings and reportable conditions.

The following regards the monitoring of grants of the three (3) Service Delivery Areas (SDA) and any sub-state grantees monitored by the Bureau of Employment Services (BES).

For a number of years the Bureau of Employment Services had been negligent in conducting annual financial and management information systems monitoring of its JTPA sub-recipients as required by 20 CFR 627.475 (b)(5). During FY 1997 a 2 year monitoring phase-in plan was designed and implemented to ensure that the Bureau would meet this responsibility by FY 1999.

Year one of the plan would occur in FY 1998 and would include MIS monitoring of the three SDA's and pass through sub-state sub-recipients. Year two would include financial monitoring of the three SDA's and JMG as well as continued MIS monitoring.

During FY 1998 the Bureau implemented and conducted MIS monitoring of each of the three SDA's and pass through sub-state sub-recipients. The Bureau worked closely with the Regional DOL staff by sending the monitoring tool, review schedule and review letters to Mr. Jim Ring for any comments.

During FY 1999 the Bureau implemented and conducted Financial monitoring visits of the three SDA's and JMG. As part of the financial review, and review of outstanding audit issues of each entity is completed to ensure that reportable conditions or material weaknesses as noted in the audit reports are being addressed. The Bureau is currently writing the monitoring reports for each recipient as a result of these visits. Each entity will have the opportunity to respond to any findings or questioned costs. Again, the monitoring tool and review letters will be forwarded to Mr. Jim Ring of the Regional DOL staff for his review and comments.

Department of Labor
(98-45) Office of Administrative Services
Labor Market Information Service
Office of Information Processing

Unemployment Insurance
CFDA#: 17.225 **Questioned Costs:** None

Federal Award Number: IT-GU-VI-50

Finding: Incorrect or unverifiable data on federal financial reports (Prior Year Finding)

U.S. DEPARTMENT OF LABOR

The Department of Labor (DOL) is required to submit to the U. S. Department of Labor certain federal financial reports. Two reports compiled and submitted by Labor Market Information Services (LMIS) included either incorrect or unverifiable financial data.

1. LMIS recalculated and estimated amounts to replace incorrect computer - generated accounts receivable data for the Contribution Operations Report. LMIS personnel could not provide the basis for the estimates.

2. The balance of accounts receivable was understated by $24,862 on the Overpayment Detection and Collection Activities Report. Data (number of cases checked) was omitted in one section of the report.

Recommendation:

We recommend that reports be reviewed for accuracy and completeness.

Auditee Response/Corrective Action Plan:

#1.

Contact Persons: Jon Nelson, OIP and Winnie Malia, LMIS

Corrective Action Plan:

The Office of Information Processing anticipates running tests on the corrections made to the ETA-581 program within two to three weeks for LMIS review.

#2.

Contact Person: Winnie Malia, LMIS

Corrective Action Plan:

Amended reports were submitted for July 30, 1998 and September 30, 1998 on August 17, 1999. The preparer will review the ETA-227 report with the supervisor prior to submittal.

U.S. DEPARTMENT OF LABOR

Department of Labor
(98-46) Office of Administrative Services
See also (98-09)

Various federal programs
CFDA#: Various **Questioned Costs:** None

Federal Award Number: N/A

Finding: Accounting systems not reconciled (Prior Year Finding)

The Department of Labor (DOL) does not reconcile expenditures recorded on its internal accounting and reporting system (DOLARS) to the statewide accounting system (MFASIS) on a timely basis. All costs are paid through MFASIS and then distributed to the applicable federal grant through DOLARS. DOL uses DOLARS to allocate indirect costs and to charge direct costs to the applicable federal grant as well for federal financial reporting. DOL received 24 federal grants in the 1998 fiscal year and expended $65 million of federal grant funds.

As of the date of audit, DOL is three years behind in reconciling DOLARS to MFASIS. DOL personnel stated that the reconciliation process is in various stages of completion. DOL has three positions dedicated to the reconciliation process. The Department has also contracted with a private firm to provide services to assist in the reconciliation process. This contractor will provide up to 3,000 hours of services over an 18 month period, for a cost not to exceed $90,000.

Certain procedural deficiencies of DOLARS hinder both the recording of transactions and the reconciliation process and complicate the cost allocation process:

1. Transactions are separately coded and entered into the two systems (MFASIS and DOLARS). Each system has its unique account code structure. The DOLARS transactions are entered into approximately 1000 fund ledgers. Due to the complexity of the account code structure, and the dual nature of the data entry process, data entry errors are inevitable.

2. DOL maintains a master file on DOLARS of each employee's hourly rate and benefit package. This master file must be updated whenever an employee's salary or benefit package changes. DOL tracks these changes for approximately 700 employees.

3. Certain prior period adjustments are not made on either system. DOL personnel stated that some of these adjustments are due to timing differences and that these adjustments may have cleared in subsequent periods.

The Common Rule, Section 20, Standards for Financial Management Systems, states:

> A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, must be sufficient to
>
> 1) permit preparation of reports required .., and
>
> 2) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Recommendation:

In order to ensure compliance with federal regulations, accurate financial reporting, and effective management review of allocated expenditures, we recommend that DOL:

1. Reconcile total revenue and expenditures on DOLARS to MFASIS for each federal grant on a monthly basis and prior to preparing any federal financial reports or the Schedule of Federal Awards.

2. Develop a single data entry point that would allow DOL to record transactions at the same time on both MFASIS and DOLARS.

3. Integrate the DOLARS function into the MFASIS upgrade package. Such an integration would need to include the Time and Attendence module. This package would have to allow DOL to use actual personal services charges on MFASIS to record direct personal services costs by grant and develop the ratios used for the allocation of overhead charges. As a result of this integration, DOL could eliminate the DOLARS salary and personal benefits master file and also discontinue the use of the monthly Time Distribution Report (form BM-3).

Auditee Response/Corrective Action Plan:

OAS concurs with the finding. As stated, the reconciliation process is in various stages of completion. The OAS feels confident that in the State fiscal year 2000, current reconciliation and adjusting entries will be completed within the following monthly accounting cycle. With the assistance of the contractor, all other reconciliations are expected to be completed by January 31, 2000.

As regard to options recommended by the Department of Audit and as stated during an oral interview, OAS and OIP had already examined the options presented by the Department of Audit

regarding dual data entry and time and attendance. To eliminate redundancy, development and implementation of enhancements to DOL's current system was suspended pending the outcome of the State's Time and Attendance and Budget RFP's.

U.S. DEPARTMENT OF TREASURY

Department of Treasury
(98-47) Office of the Treasurer of State

Various federal programs
CFDA#: Various **Questioned Costs:** None

Federal Award Number: N/A

Finding: Internal control not adequate to ensure compliance with Cash Management Improvement Act

The Office of the Treasurer of State is responsible for administering the Cash Management Improvement Act (CMIA) provisions for the State of Maine. This includes negotiating the annual CMIA Agreement between the State and the US Treasury Department, preparing the CMIA Annual Report, and monitoring State agency compliance with CMIA provisions.

We noted the following instances of noncompliance:

- Three federal assistance programs (Employment Service, Employment & Training Assistance-Dislocated Workers, and Disaster Assistance) were omitted from the Agreement and from the Annual Report for fiscal year 1998. As a result, no drawdown methods were designated, nor interest calculations made, for these programs. The three programs may have accrued an interest obligation to the federal government.

- The Treasurer periodically review agency cash management records as required by the *CMIA Policy and Procedures Manual.*

- The Department of Labor (DOL) and the Department of Human Services (DHS) did not comply with established procedures for program components using the prorated drawdown method of funding. The prorated drawdown method is interest neutral if drawdowns are properly made on the average clearance day for State payroll checks, but DOL and DHS drawdowns were made prematurely. The Treasurer did not take action to

remedy the drawdown procedures DOL and DHS or to report an interest accrual on premature drawdowns.

<u>Recommendation</u>:

We recommend that the Office include all applicable federal programs in the Treasury-State Agreement and the CMIA Annual Report.

We recommend that the Office implement procedures to assure statewide compliance with the provisions of the Cash Management Improvement Act, to include a review of the monthly interest liability reports and periodic reviews of agency cash management records.

<u>Auditee Response/Corrective Action Plan</u>:

Two grants omitted from the FY 1998 agreement were pre-existing programs that had previously been below the dollar threshold for being included. These should have been added for the first time in FY 1998 but were overlooked. They have already been included in the subsequent agreement. A third grant, Disaster Assistance, has never been included in the agreement because it has not been considered an ongoing program. Because of the unpredictable nature of emergency assistance, exceeding the threshold in one year is not an indication it will exceed it the following year. FMS officials have recognized this is unlike other programs and have not objected to its omission in prior years. In future agreements we will either include the program or get the federal government to sign off on the omission.

While it might not have been considered periodic, several times during FY 1998 we checked in with the agencies to discuss concerns. In 1999 a review of the CMIA program was undertaken by the Treasurer and improvements were made in oversight procedures, including increasing the reliability of interest liability reports generated by the central accounting system and increasing recipient agency awareness of the importance of reporting exceptions to the Treasurer. Also in 1999, we invited the federal CMIA coordinator assigned to Maine to come to the state to discuss issues and participate in a training session with DHS. Since the CMIA Policy and Procedures Manual was prepared for Treasury at the beginning of the CMIA program in 1993, we have formalized a sign-off procedure for agencies to report exceptions to drawdown procedures. This gives more responsibility to the agencies for seeing that they follow what is agreed upon and lessens the need for Treasury to audit agency cash management records. As procedures continue to evolve, the manual will be updated to reflect changes.

U.S. DEPARTMENT OF TREASURY

The Department of Labor (DOL) and the Department of Human Services (DHS) drew down the administrative cost components of certain grants before the average day of clearance for state payroll. This occurred because the accounting system requires money to be in the account before the state payday. DHS has corrected this by using other funds to temporarily cover these costs. DOL is not able to do this so we calculated and paid an interest liability to compensate the federal government for the use of the money.

DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

Department of Administrative and Financial Services
(98-48) Division of Financial and Personnel Services
See also (98-06) **Questioned Costs:** $324,077

Finding: Working capital excessive, disbursements not in compliance, and account structure inadequate (Prior Year Finding)

The State of Maine provides health care benefits for most retirees using the pay-as-you-go method. The Retiree Health Insurance Internal Service Fund is used to collect funds for and to pay health insurance premiums on behalf of retired state employees, retired teachers and for retirees of other participating ancillary groups. At June 30, 1998, the Fund balance was $12.3 million, an increase of $4.0 million from the preceding year.

Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments,* restricts allowable working capital in Internal Service Funds. Generally, working capital in excess of 60 days for cash expenses for normal operations is considered excessive. The Fund disbursed $17.1 million for normal operations in fiscal year 1998. At June 30, 1998, working capital available exceeded that allowed by $9.5 million. The Fund had working capital sufficient for eight and one-half months rather than two.

Sections 11(f) 1, 5, and 6 of OMB Circular A-87 restrict allowable charges for post-retirement health benefit plans financed on a pay-as-you-go method to actual payments to retirees and their beneficiaries. Post retirement health benefit costs must be paid either to: (a) an insurer or other benefit provider as current year costs or premiums, or (b) an insurer or trustee to maintain a trust fund or reserve for the sole purpose of providing postretirement benefits to retirees and other beneficiaries.

Federal funds contributed 15.52 percent of the 1998 fiscal year $2.1 million excess revenue associated with retired state employees. We therefore question $324,077, the federal share of funds paid in excess of those paid to insurers for state retirees.

We also note that Fund accounting records are not structured to identify amounts paid in and premiums paid out by participating group. Agency personnel have not made such comparisons. It is therefore possible that funds paid in by one group or funding source could subsidize other participants without it being known. For the 1998 fiscal year, our examination showed that no such subsidy took place; each group paid in more than was disbursed.

Recommendation:

We recommend that the Division establish accounts within the Fund that will permit identification of amounts received and disbursed on behalf of each participating group. We also recommend that, if the pay-as-you-go method is retained, federal funds be disbursed as required to avoid future questioned costs and that working capital comply with federal ceilings.

Auditee Response/Corrective Action Plan:

The authorization to establish a proper internal service fund was granted by the Legislature in SectionB-4, Chapter 16, Public Law, 1999. The Working Capital will be adjusted to reflect the allowable 60day reserve authorized by OMB Circular A-87.

The Department has retained the services of a qualified actuary to examine the program. The results of the acturary's work demonstrate that there are no excess balances from any participating fund or charges levied any participating fund.

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Finding Number: 98-01
Department of Administrative and Financial Services
Bureau of Accounts and Control
Contact Person: Terry Brann
Telephone Number: (207) 287-4607

Finding: Accounts payable procedures inadequate (Prior Year Finding)

Corrective Action Plan:

1. We agree that the instructions for fiscal year 1998 were not as clear as possible and some incorrect guidance was given. We have revised the instructions for fiscal year 1999 and believe that the accounts payable documentation provided to agencies will bring clarity and accuracy to agency reporting.

2. We agree that the accounting system does not currently identify invoices that should be prorated between accounting periods. However, we do not believe these amounts would be significant. We will analyze sample transactions and further evaluate this situation during the next fiscal year.

3. We agree that it was not clear whether interface systems could use the accrual indicator. We are currently in the process of meeting with personnel from those interfacing agencies and believe we have developed methods to accumulate the payable data for fiscal year 1999 for those significant systems.

4. We do not agree with the statement that the State does not independently verify the amounts due to the component units. The amounts reported in the component unit financial statements were opined on by independent auditors. In addition, we did verify a sample of the significant amounts and at the time did not find any material discrepancies.

Finding Number: 98-02
Department of Administrative and Financial Services
Division of Financial and Personnel Services/Bureau of Accounts and Control
Contact Person: Ed Karass
Telephone Number: (207) 287-4500

Finding: Inadequate internal control system to identify capital leases (Prior Year Finding)

Corrective Action Plan:

We agree with the recommendation. Our work in this area is nearly complete. We should be in compliance for FY 99's audit.

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Finding Number: 98-03
Department of Administrative and Financial Services
Bureau of Accounts and Control
Contact Person: Terry Brann
Telephone Number: (207) 287-4607

Finding: Fixed asset records incomplete (Prior Year Finding)

Corrective Action Plan:

We agree with the finding. We are in the process of recording all historical information related to fixed assets for the State and intend to have the information completed for the fiscal year 1999 audit.

Finding Number: 98-04
Department of Administrative and Financial Services
Bureau of Alcoholic Beverages and Lottery
Contact Person: Ed Karass
Telephone Number: (207) 287-4500

Finding: No assurance of adequate internal controls

Corrective Action Plan:

The Bureau conducted a SAS Audit last year and intends to do this annually. While we are late in our procurement of audit services we are presently contracting to have such an Audit performed as recommended by the State Auditor and will be on a timely schedule moving forward.

Finding Number: 98-05
Department of Administrative and Financial Services
Maine Revenue Services
Contact Person: Jerome Gerard
Telephone Number: (207) 624-7854

Finding: Inadequate segregation of duties (Prior Year Finding)

Corrective Action Plan:

MRS will segregate duties by having the supervisor in the EFT unit handle all taxpayer contacts regarding the setting up of a taxpayer for fund transfers while her assistant handles the related accounting functions. To further strengthen MRS' controls over this area, materials sent to taxpayers who apply for EFT processing will instruct the taxpayer to verify the state's bank account number for EFT by checking MRS' web page. MRS will contact other entities that use EFT to determine what internal controls they use in ensuring adequate safeguarding for this area. Every reasonable effort will be made to employ better controls in MRS' EFT process.

MRS has begun to implement some of the aforementioned reforms and will continue to develop and refine "controls" throughout fiscal year 2000.

Finding Number: 98-06
Department of Administrative and Financial Services
Division of Financial and Personnel Services
Contact Person: Ed Karass
Telephone Number: (207) 287-4500

Finding: Working capital excessive, disbursements not in compliance, and account structure inadequate (Prior Year Finding)

Corrective Action Plan:

The authorization to establish a proper internal service fund was granted by the Legislature in Section B-4, Chapter 16, Public Law, 1999. The working capital will be adjusted to reflect the allowable 60 day reserve authorized by OMB Circular A-87.

The Department has retained the services of a qualified actuary to examine the program. The results of the actuary's work demonstrate that there are no excess balances from any participating fund or charges levied any participating fund.

Finding Number: 98-07
Department of Human Services
Bureau of Child and Family Services
Contact Person: Jeannette Talbot
Telephone Number: (207) 287-5060

Finding: Accounts payable amounts overstated

Corrective Action Plan:

Previously, the Bureau of Child & Family Services manually processed monthly contract payments a month in advance to their social services agencies. This would lead to this accounts payable overstatement when going from one fiscal year to another. Currently, Maine Automated Child Welfare Information System (MACWIS) automatically processes these invoices the same month they are due which will alleviate this situation.

Finding Number: 98-08
Department of Labor
Office of Administrative Services
Contact Person: Rose Bailey
Telephone Number: (207) 287-1276

Finding: Allowance account for uncollectible receivables not properly estimated (Prior Year Finding)

Corrective Action Plan:

The OAS has adopted the procedure that a reserve for uncollectible receivables will be established using the Unemployment Compensation Receivable report (TXAM) for receivables that are older than the most current calendar year. The appropriate journal entries were made reflecting this change for the period ending June 30, 1999.

Finding Number: 98-09
Department of Labor
Office of Administrative Services
Contact Person: Rose Bailey
Telephone Number: (207) 287-1276

Finding: Accounting systems not reconciled (Prior Year Finding)

Corrective Action Plan:

OAS concurs with the finding. As stated, the reconciliation process is in various stages of completion. The OAS feels confident that in the State fiscal year 2000, current reconciliation and adjusting entries will be completed within the following monthly accounting cycle. With the assistance of the contractor, all other reconciliations are expected to be completed by January 31, 2000.

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As regard to options recommended by the Department of Audit and as stated during an oral interview, OAS and OIP had already examined the options presented by the Department of Audit regarding dual data entry and time and attendance. To eliminate redundancy, development and implementation of enhancements to DOL's current system was suspended pending the outcome of the State's Time and Attendance and Budget RFP's.

Finding Number: 98-10
Department of Transportation
Bureau of Finance and Administration
Contact Person: Gregory Shea
Telephone Number: (207) 287-2641

Finding: Overstatement of accounts payable accruals

Corrective Action Plan:

We concur, the Department of Transportation will review the procedures for accruals to insure they are captured and reported correctly for the next fiscal year.

Finding Number: 98-11
Office of the Treasurer of State
Contact Person: Marc Cyr
Telephone Number: (207) 287-2771

Finding: Untimely clearing of reconciling items (Prior Year Finding)

Corrective Action Plan:

With thousands of transactions to monitor each month, resolution of unreconciled items is a continuous and unending process in the Treasurer's Office. At the end of each fiscal year there are always agencies that do not submit cash receipts to Treasury in time to book all cash transactions into the old year records. Of the $13 million of unrecorded deposits referred to in the audit findings, $7,000,000 was a single deposit on 6/30/98 that was not identified and posted until 7/14/98. Another $5,000,000 was a second deposit of funds for which no cash receipt was received by cutoff time. Although dependent on the efforts of other agencies to improve this, Treasury will make every effort to identify these sooner in the future.

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Finding Number: 98-12
Department of Defense, Veterans and Emergency Management
Military Bureau
Contact Person: CPT Dwaine Drummond
Telephone Number: (207) 626-4225

Finding: Failure to match with State funds

Corrective Action Plan:

The finding is a legitimate concern. The State share of Appendix 2 to the Master Cooperative Agreement has historically been funded by depositing State funds into the 013 Federal Reimbursement account. While the influx of cash into the 013 Federal Reimbursement account provides a means to meet the State share, the Department has not adequately documented all these transitions.

1. The Department (Central Admin Services) will compile all necessary data to accurately determine the status of the required State matching funds.

2. Based on this determination, the Department will undertake any additional corrective actions as appropriate.

Anticipated Completion Date: 1 December 1999

Finding Number: 98-13
Department of Defense, Veterans and Emergency Management
Military Bureau
Contact Person: CPT Dwaine Drummond
Telephone Number: (207) 626-4225

Finding: Noncompliance with suspension and debarment certification and bonding requirements

Corrective Action Plan:

I concur with this finding. OMB Circular A-133 provides guidance on the preparation and execution of contracts of $100,000 or more. The department has complied on all non-service (i.e. repair and constriction contracts), but failed to include the required clauses in service contracts.

Although, the Site Manager requested proof of bonding, the contractor deferred the issue to her attorney. Subsequently, the Department determined that legal action was not feasible, as the contract was due to expire in August of the current year.

1. The Department will ensure that all contracts of $100,000 or more in value will include all required clauses, per OMB Circular A-133.

2. The Department has added the subject clauses to its electronic media copy of the standard contract and provisions, and will make distribution to all affected personnel.

3. Future contractors will be required to provide the proof of bonding prior to execution by the approving authority.

Anticipated Completion Date: 1 September 1999

Finding Number: 98-14
Department of Defense, Veterans and Emergency Management
Military Bureau
Contact Person: CPT Dwaine Drummond/Roland Leach
Telephone Number: (207) 626-4225/(207) 624-7045

Finding: Cash management procedures

Corrective Action Plan:

I concur with the finding. The Department recognizes the requirement to efficiently manage Federal dollars, in accordance with NGR 5-1 and NGI 63-101. Due to the recent institution of electronic payment, the State has received funds in a more timely manner than previously was possible. The State must make adjustments to the Advance payment program to ensure compliance.

1. The Department will consolidate requests for advances at the proposed Office of Cooperative Agreements in order to provide maximum oversight and minimize excess cash on hand.

2. CPT Drummond will coordinate with the USPFO for Maine, to determine the appropriate format for submission of Advance Payment Plans and requests for payments under the approved plans.

3. The ability for the State to pay all invoices and requisitions for payment, without utilizing the 013 account is questionable at best. The National Guard Bureau will authorize advance payment against 100% reimbursable categories only. All other categories of federal support must utilize the reimbursement process.

Anticipated Completion Date: 1 October 1999: Actions 1 & 2, 1 July 2000: Action 3

Finding Number: 98-15
Department of Defense, Veterans and Emergency Management
Military Bureau
Contact Person: CPT Dwaine Drummond/Roland Leach
Telephone Number: (207) 626-4225/(207) 624-7045

Finding: Incorrect Schedule of Expenditures of Federal Awards (Prior Year Finding)

Corrective Action Plan:

I concur with the finding. DVEM has not previously qualified under the Single Audit Act for review due to the total value of the grant. The Loring Rebuild Center increased the grant value to $8,283,114 for fiscal year 98. Personnel at the Department of Public Safety, and DVEM had not collaborated on grant-related issues, prior to submission of the Schedule of Expenditures of Federal Awards. Confusion on reportable categories led to the submission of inaccurate data.

1. Public Safety will coordinate the annual submission of the Schedule of expenditures of Federal Awards with the OCA manager to determine the appropriate data required.

2. The USPFO for Maine will review the data, prior to submission to the Bureau of Accounts and Controls.

Anticipated Completion Date: 1 January 2000

Finding Number: 98-16
Department of Education
Bureau of Compensatory Education
Contact Person: Susan Griffin
Telephone Number: (207) 287-4485

Finding: Noncompliance with period of availability requirement

Corrective Action Plan:

As recommended by the auditor, the Office of Compensatory Education has requested the return of $13,999 from the subrecipient in question. This amount, when received by the Department, will be returned to the U.S. Department of Education. The Office of Compensatory Education does maintain internal policies and procedures to monitor the 27 month period of grant availability, and believes this oversight was a one time occurrence. This finding should not be repeated in subsequent years.

Finding Number: 98-17
Department of Education
Bureau of Compensatory Education
Contact Person: Susan Griffin
Telephone Number: (207) 287-4485

Finding: Compliance with comparability requirements not reviewed

Corrective Action Plan:

Title I program staff discovered the comparability question was inadvertently omitted in the "LEA Documentation" section of the Coordinated IASA Program Pre-Review Report when the report was updated for FY'98. The pre-review report was immediately revised and the comparability question added when the omission was brought to their attention.

In the future, it will be the responsibility of Title I program staff to ensure findings receiving corrective action do not continue to recur in subsequent years and that corrective action is completed in an appropriate manner or in a manner consistent with applicable federal regulations.

Finding Number: 98-18
Department of Education
Bureau of Compensatory Education
Contact Person: Susan Griffin
Telephone Number: (207) 287-4485

Finding: Eligible children count not verifiable

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Corrective Action Plan:

Title I program staff will request subsidiary data from subrecipients on a timely basis. The data will be maintained in the Migrant Education Office as backup to support the number of eligible migratory children reported to the U.S. Department of Education pursuant to Title I, Part C, Section 1304(C)(7) of ESEA.

Finding Number: 98-19
Department of Education
Bureau of Special Services
Contact Person: Susan Griffin
Telephone Number: (207) 287-4485

Finding: Excessive grant funds applied to administrative costs (Prior Year Finding)

Corrective Action Plan:

Currently, individual account managers in Finance are monitoring federal programs to ensure federal funds are allocated in accordance with federally mandated thresholds. This prior year finding was corrected in August, 1998(FY'99) after the close of FY'98 when it was brought to our attention. The finding, therefore, was not and could not be corrected during FY'98.

Finding Number: 98-20
Department of Education
Bureau of Special Services
Contact Person: Susan Griffin
Telephone Number: (207) 287-4485

Finding: Local educational agency maintenance of effort not monitored

Corrective Action Plan:

The Office of Special Services has implemented policies and procedures to monitor subrecipient maintenance of effort, however, a lack of adequate personnel resources had not allowed more frequent monitoring to occur as recommended by the auditor. Existing staff will continue to monitor maintenance of effort on a regular basis by comparing current year expenditures with prior year expenditures and to analyze various fluctuations in expenditures from year to year to ascertain whether subrecipients are complying with the supplement versus supplant provision of the federal regulations. Subrecipients in non-compliance with the maintenance of effort requirement will be contacted based on the results of those analyses.

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Finding Number: 98-21
Department of Human Services
Bureau of Child and Family Services
Contact Person: Jeannette Talbot
Telephone Number: (207) 287-5060

Finding: Payroll costs not equitably distributed

Corrective Action Plan:

The Auditing, Contracting & Licensing Service Center is implementing a cost allocation plan for several positions in the Service Center in SFY 2000. All state and federally funded contract staff responsible for childcare service contracts are included in the cost allocation plan. Cost allocated staff are required to complete a separate time sheet that delineates all of their work activities and the appropriate percentage of the cost to be applied to each funding source for each activity.

Finding Number: 98-22
Department of Human Services
Bureau of Child and Family Services
Contact Person: Conrad Thibault
Telephone Number: (207) 287-5060

Finding: Expenditures made to child day care providers with expired licenses

Corrective Action Plan:

The Auditing, Contracting & Licensing Service Center's childcare licensing process has been automated in the Department's MACWIS system. The automated system produces a report of providers who are due for renewal 90 days prior to the expiration of current licenses/certifications. Providers are mailed renewal packages at that time to afford them adequate time to submit their licensing/certification renewal.

The Auditing, Contracting & Licensing Service Center's Licensing Division will revise the form letter that accompanies renewal packages by October 1, 1999 to alert providers that future Child Care and Development Fund payments may be affected by late submission of renewal applications.

The Auditing, Contracting & Licensing Service Center will also request a modification to the MACWS system to alert the system's Contract Payment Module of overdue renewal applications for contracted child care programs.

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Finding Number: 98-23
Department of Human Services
Bureau of Child and Family Services
Contact Person: Jeannette Talbot
Telephone Number: (207) 287-5060

Finding: Payments to providers in excess of authorized rates

Corrective Action Plan:

Instruction has been provided to all staff who authorize Child Care and Development Fund childcare payments. The Service Center will issue an Action Transmittal by October 1, 1999 to all staff who authorize Child Care and Development Fund child care payments reiterating the requirement to adhere to the market rates. Copies of child care market rates also will be provided to all staff who process Child Care and Development Fund payments as an additional control on adhering to the market rate maximum payment rates.

Finding Number: 98-24
Department of Human Services
Bureau of Child and Family Services
Contact Person: Jeannette Talbot/Robert Nadeau
Telephone Number: (207) 287-5060

Finding: Insufficient supporting documentation

Corrective Action Plan:

The Department will maintain documentation to support all expenditures beginning immediately.

Finding Number: 98-25
Department of Human Services
Bureau of Child and Family Services
Contact Person: Jeannette Talbot
Telephone Number: (207) 287-5060

Finding: Payments to unlicensed foster care homes

<u>Corrective Action Plan</u>:

The Bureau strives to have children placed only in licensed homes however, there are situations in which the child (adolescents) self place and the home chooses not to become licensed. In situations where a licensed home does not get its application in on time, the Bureau will develop a follow-up mechanism to call and remind the foster parent. Even in such situations, the circumstances are reviewed by Central Office staff by a request for approval of an unlicensed placement.

Finding Number: 98-26
Department of Human Services
Bureau of Child and Family Services
Contact Person: Jeannette Talbot
Telephone Number: (207) 287-5060

<u>Finding</u>: Pass-through responsibilities not met and missing Quarterly Financial Reports

<u>Corrective Action Plan</u>:

Missing Quarterly Reports:
The Service Center will issue an Action Transmittal by October 1, 1999 to all contract agencies reiterating the requirement to adhere to the requirement and schedule for submission of financial reports, and the payment penalties for non adherence.

The Service Center's management will review the feasibility of utilizing the MACWIS system to monitor timely submission of provider financial reports by October 1, 1999.

Contract Financial Reports are now maintained in a central file by the Planning & Research Associate who oversees the contract payment system, thus reducing the possibility of misplacing the reports. The summary information on the Financial Reports is also entered into the electronic contract payment system. The Service Center will be requesting a "system enhancement" to the contract payment system to flag contracts with delinquent financial Reports when payments are being authorized.

Inaccurate CFDA#:
The Service Center's Financial Manager will issue a Memorandum to all Contract Unit staff with all applicable CFDA numbers, and will issue a Memorandum to the Contract Services Unit Manager to ensure that CFDA numbers are corrected prior to contract approval.

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Finding Number: 98-27
Department of Human Services
Various Bureaus
Contact Person: Thomas Randall/Warren Bartlett/Reinhold Bansmer
Telephone Number: (207) 624-5335/(207) 287-1868/(207) 287-3201

Finding: Noncompliance with suspension and debarment requirements

Corrective Action Plan:

The Department of Human Services concurs with this finding and has included in Rider "C" of all the agreements/contracts a statement concerning debarment and suspensions..

Finding Number: 98-28
Department of Human Services
Various Bureaus
Contact Person: Pat Shaw
Telephone Number: (207) 287-1855

Finding: Noncompliance with cash management requirements

Corrective Action Plan:

The Department of Human Services agrees that cash drawdowns should be as close as administratively feasible to the actual cash outlay. Every effort will be made to be in compliance with the Federal regulations concerning cash drawdowns.

Finding Number: 98-29
Department of Human Services
Bureau of Health
Division of Financial Services
Bureau of Child and Family Services
Contact Person: Jeannette Talbot
Telephone Number: (207) 287-5060

Finding: Noncompliance with earmarking requirements

Corrective Action Plan:

The Department of Human Services does not concur with this audit finding. The Auditing, Contracting and Licensing Service Center did expend $32,282 for Victims of Sexual Offenses through the regular grant process with the various agencies throughout the state. The details are on file in the Auditing, Contracting and Licensing Center.

Finding Number: 98-30
Department of Human Services
Audit, Contracting and Licensing Service Center
Contact Person: Susan Harlor/Margaret Semple
Telephone Number: (207) 287-5060

Finding: Payroll costs not equitably distributed

Corrective Action Plan:

The position in question is in the Bureau of Child & Family Services. The Bureau management will designate a Bureau account to allocate the position to, and initiate a transfer of expenses for SFY 1999 and FY 2000. A Part II State Budget request will be submitted to the 2000 Legislative session to formally assign the position to a Bureau of Child & Family Services account effective July 1, 2000.

Finding Number: 98-31
Department of Human Services
Division of Financial Services
Contact Person: Pat Shaw
Telephone Number: (207) 287-1855

Finding: Federal share of provider overpayments not calculated correctly, refunds not reported timely (Prior Year Finding)

Corrective Action Plan:

The Department of Human Services does not concur with all the elements of this finding. The policy referred to in the finding is a HCFA policy concerning using the Federal matching rates that were in effect during the period when the overpayment occurred. These calculations were applied on refunds relating to nursing homes, nursing MR's, hospitals, ICF-MR's and Development Training Facilities only. All other types of providers were not included in these

calculations because they represented a small portion of payments to providers. This exclusion has been acceptable to HCFA due to the issue of materiality.

The issue of timeliness in reporting overpayments to HCFA via the HCFA report is misleading because of two factors. Firstly, all overpayments are credited to the appropriate accounts on a monthly basis, and overpayments are not reported in a timely manner. Since all overpayments are credited back to the appropriate accounts on a monthly basis, we feel that we are meeting the 60-day rule for overpayments.

The last two issues are related in that they both deal with boarding home services and PNMI's. The Bureau of Medical Services provides the Division of Financial Services information from the Maine Medicaid Information System regarding overpayments. BMS has an adjusting unit that determines what the appropriate breakdown should be. This action is performed after the fact.

The Bureau of Medical Services is in the process of acquiring a new Medicaid system which will provide a much better automated process to handle a myriad of problems including those in this finding.

Finding Number: 98-32
Department of Human Services
Division of Financial Services
Contact Person: Jeff Pettengill
Telephone Number: (207) 287-1857

Finding: No supporting documentation for claimed program expenditures

Corrective Action Plan:

The Department of Human Services agrees that it should only claim those expenditures for which there is supporting documentation. The authorization for these adjustments to the expenditures came in the form of a verbal request from the program manager. In the future, the account manager will maintain documentation supporting adjustments to accounting records made in the preparation of Financial Status Reports.

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Finding Number: 98-33
Department of Human Services
Division of Financial Services
Contact Person: Carol Bean
Telephone Number: (207) 287-2473

Finding: Undocumented transfer, administrative expense and maintenance of effort amounts

Corrective Action Plan:

The Department of Human Services concurs with the audit finding regarding administrative and maintenance of effort expenditures. DHS will record and retain documentation used to satisfy maintenance of effort requirements for federal fiscal year 97. DHS will compile and retain supporting documentation for administrative expenditures and compile maintenance of effort worksheets for federal fiscal year 97 and provide to Department of Audit before 10/30/99.

Finding Number: 98-34
Department of Human Services
Division of Financial Services
Contact Person: Pat Shaw
Telephone Number: (207) 287-1855

Finding: Unsupported disbursement information reported to the federal government (Prior Year Finding)

Corrective Action Plan:

The Department of Human Services agrees that the information on the PMS-272 Reports should be supported by disbursements that are documented. However, some of the information isn't available at the time of the submission of the PMS-272 Report. In order to provide the most complete cash disbursement info estimates are used for a few programs that haven't submitted final quarterly reports. Every effort is made to report the actual disbursements, and we will endeavor to improve on the reporting process. The Division of Financial Services has added another Account Manager position to the staff, which will help in attaining this goal.

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Finding Number: 98-35
Department of Human Services
Division of Financial Services
Contact Person: John Mower
Telephone Number: (207) 287-1868

Finding: Schedule of expenditures of federal awards not complete and/or inaccurate

Corrective Action Plan:

The Department of Human Services, Division of Financial Services, concurs with this audit finding. The Department will exercise greater care in preparing the SEFA for SFY 99. The size and complexity of the Department's accounting structure has led to reconciliation difficulties, but a format will be created to link MFASIS expenditures with SEFA figures. Other deficiencies are due to lack of information in preparing this new SEFA form the last 2 years. Sometimes, as in this case, we have to rely on an audit finding as guidance.

As for Item #13, it is difficult to reference multiple cost centers on the current SEFA format. The Department distributes administrative costs via a cost allocation plan, which distorts the accounting data when reporting on the SEFA report.

Finding Number: 98-36
Department of Human Services
Division of Financial Services
Contact Person: Burnell D. Bouchard
Telephone Number: (207) 287-2377

Finding: Inadequate internal accounting controls associated with the allocation of direct costs to federal grant programs

Corrective Action Plan:

The Department of Human Services, Division of Financial Services, concurs with this audit finding. The Division will be hiring a new staff person whose responsibility will be the Department's direct and indirect cost allocation plans. Included in this responsibility will be assuring that all schedules will be verified for accuracy and completeness and that the schedules be reconciled to the State's accounting records quarterly and also routinely review and approve supporting schedules. The focus of this position will be to centralize all cost allocation functions.

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Finding Number: 98-37
Department of Human Services
Division of Financial Services
Contact Person: Burnell D. Bouchard
Telephone Number: (207) 287-2377

Finding: Incorrect allocation of program costs

Corrective Action Plan:

The Department of Human Services, Division of Financial Services, concurs with this audit finding. The Division will be hiring a new staff person for the cost allocation function. This position will be responsible for all aspects of the direct and indirect cost allocation plans. Included in this responsibility will be assuring that all schedules will be verified for accuracy and completeness. The cost allocation schedules affected by this finding will be revised and the necessary adjustments will be made to the respective program's federal reports. These revisions will be done as prior quarter adjustments to the 9/30/99 submissions.

Finding Number: 98-38
Department of Mental Health, Mental Retardation and Substance Abuse Services
Children Services
Contact Person: Robert Bernier
Telephone Number: (207) 287-4277

Finding: Pass-through responsibilities not met (Prior Year Finding)

Corrective Action Plan:

The Department agrees that one recipient agency had excess cash on hand. When we did find out the Department did not make all future contract payments as agreed upon and that is why the Department requested use of the one year no cost extension in the amount of $740,000. The Department will monitor agencies more closely in the future so this doesn't happen again.

Finding Number: 98-39
Department of Mental Health, Mental Retardation and Substance Abuse Services
Children Services
Contact Person: Robert Bernier
Telephone Number: (207) 287-4277

Finding: Indirect cost rate applied incorrectly (Prior Year Finding)

Corrective Action Plan:

The Department has made arrangements to put back into the grant excess indirect cost for the past two years. Part of the funds were restored to the grant prior to the close of FY1999 in the amount of $88,187, and the remainder of $255,706 in FY2000.

Finding Number: 98-40
Department of Mental Health, Mental Retardation and Substance Abuse Services
Office of Substance Abuse
Contact Person: Robert Bernier
Telephone Number: (207) 287-4277

Finding: Set-aside and period of availability requirements not met; compliance with administrative limits not demonstrated; funds not obligated in period allowed (Prior Year Finding)

Corrective Action Plan:

The Office of Substance Abuse has established accounting procedures to improve our ability to monitor and identify administrative expenditures and set-aside allocations for each specific block grant award. The Office of Substance Abuse has taken additional corrective action during State fiscal year 1999 to improve the timing of obligating funds.

Finding Number: 98-41
Department of Mental Health, Mental Retardation and Substance Abuse Services
Office of Substance Abuse
Contact Person: Robert Bernier
Telephone Number: (207) 287-4277

Finding: Noncompliance with cash management requirements

Corrective Action Plan:

The Office of Substance Abuse is continuing to evaluate and refine our cash management system to ensure compliance with Federal cash management regulations…including the process of adjusting payments to providers based on Quarterly Financial Reports. We believe that improvements have been achieved in the cash management system resulting in a high level of compliance with Treasury Circular 1075. During Fiscal Year 1999, the contract officers were moved from the Service Center back to the Office of Substance Abuse and report to the Fiscal

Manager. We believe this change will further improve our ability to monitor and adjust payments to subrecipients as necessary.

We believe that converting all subrecipients to a monthly payment schedule as recommended, would inordinately increase the administrative effort compared to possible benefits. We will review the possibility of converting some of the largest contracts to a monthly payment schedule

Finding Number: 98-42
Department of Economic and Community Development
Office of Community Development (OCD)
Contact Person: Aaron Shapiro
Telephone Number: (207) 287-8476

Finding: Funds committed before environmental review clearance (Prior Year Finding)

Corrective Action Plan:

1. Two requests for payment were received prior to the 8/16/97 clearance date, #1 for $44,800 and #2 for $192,416.

2. DECD recognized at the time the second request for payment was approved on 8/19/97 that construction activities had occurred prior to the 8/16/97 ERR clearance date.

3. This is reflected in a letter… dated 8/20/97. This letter was sent and the request for payment approved with the knowledge and endorsement of (the) Commissioner…

DECD provided funds to the Town of Fort Kent, knowing of the technical violations, for the following reasons:

- Failure to provide the funding for the sewage pretreatment facility would have bankrupted the company, Fort Kent's second largest employer, placing 75 primarily low and moderate-income persons out of work. At the time, Fort Kent's unemployment rate was in excess of 10%.

- Failure to provide the funds would have caused severe financial hardship to farmers in the St. John Valley that had contracted to grow potatoes for (the company). This extremely serious situation would have spread to suppliers who provide seed, fuel and equipment to these farmers.

- The request for payment for construction activities was not honored until after the ERR clearance date of 8/16/99. The Environmental Review Record not only demonstrates no Harmful environmental impact it identifies significant environmental improvements provided by the project.

- The community stated that the early construction start was imperative to effectively process the upcoming fall potato harvest. DECD was entirely unaware that construction activity had begun as early as mid June. If DECD had known this, it would have halted construction immediately…

- As demonstrated by the audit, the commitment of CDBG funds prior to ERR clearance that occurred in Fort Kent is an isolated instance, not evidence of administrative or management shortcomings. This is the only case in 61 examined where this situation took place.

- DECD, by its letter to Fort Kent of 8/20/97, acknowledged the situation itself. The Department was well aware of the matter and informed the community of potential consequences at the time of the incident.

Finding Number: 98-43
Department of Labor
Bureau of Employment Services
Contact Person: Barry Martiin
Telephone Number: (207) 624-6390

Finding: Debarment and suspension certifications not obtained

Corrective Action Plan:

The Bureau has included as a separate Rider the Certification Regarding Debarment, Suspension and Other Responsibility Matter Form in all contracts commencing July 01, 1998. This was implemented as a result of the oversight of this instrument that was a result of the annual audit for FY 1997 conducted during April to June of 1998.

STATE OF MAINE
CORRECTIVE ACTION PLAN
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

Finding Number: 98-44
Department of Labor
Bureau of Employment Services
Contact Person: Rose Bailey/Barry Martin
Telephone Number: (207) 287-1276/(207) 624-6390

Finding: Inadequate subrecipient monitoring (Prior Year Finding)

Corrective Action Plan:

The following regards the monitoring of service providers via sub-grants from the 12-County Service Delivery Area (SDA) administered through the Workforce Development Centers Administrative Office (WDCAO).

The Office of Administrative Services will schedule monitoring visits annually to comply with OMB Circular A-133. Monitoring of the three subrecipients for whom OAS is responsible was performed during the state fiscal year 1999.

The OAS does review the Schedule of Findings and Questioned Costs for reportable conditions noted in the Independent Audit Reports of each subrecipient. However, of the three subrecipients monitored by the OAS, only one had a reportable condition that may impact Department of Labor programs. These conditions were also noted in the onsite monitoring performed by OAS this year, which included a subsequent follow-up visit to the subrecipient.

The OAS will work with the Workforce Development Center Administrative Office and the Bureau of Employment Services during state fiscal year 2000 to develop a departmental policy for annual subrecipient monitoring and follow-up on all independent audit findings and reportable conditions.

The following regards the monitoring of grants of the three (3) Service Delivery Areas (SDA) and any sub-state grantees monitored by the Bureau of Employment Services (BES).

For a number of years the Bureau of Employment Services had been negligent in conducting annual financial and management information systems monitoring of it's JTPA sub-recipients as required by 20 CFR 627.475 (b)(5). During FY 1997 a 2 year monitoring phase-in plan was designed and implemented to ensure that the Bureau would meet this responsibility by FY 1999.

Year one of the plan would occur in FY 1998 and would include MIS monitoring of the three SDA's and pass through sub-state sub-recipients. Year two would include financial monitoring of the three SDA's and JMG as well as continued MIS monitoring.

STATE OF MAINE
CORRECTIVE ACTION PLAN
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

During FY 1998 the Bureau implemented and conducted MIS monitoring of each of the three SDA's and pass through sub-state sub-recipients. The Bureau worked closely with the Regional DOL staff by sending the monitoring tool, review schedule and review letters to Mr. Jim Ring for any comments.

During FY 1999 the Bureau implemented and conducted financial monitoring visits of the three SDA's and JMG. As part of the financial review, and review of outstanding audit issues of each entity is completed to ensure that reportable conditions or material weaknesses as noted in the audit reports are being addressed. The Bureau is currently writing the monitoring reports for each recipient as a result of these visits. Each entity will have the opportunity to respond to any findings or questioned costs. Again, the monitoring tool and review letters will be forwarded to Mr. Jim Ring of the Regional DOL staff for his review and comments.

Finding Number: 98-45
Department of Labor
Office of Administrative Services
Labor Market Information Service
Office of Information Processing
Contact Person: Rose Bailey/Jon Nelson/Winnie Malia
Telephone Number: (207) 287-1276/(207) 287-3168/(207) 287-1256

Finding: Incorrect or unverifiable data on federal financial reports (Prior Year Finding)

Corrective Action Plan:

#1.

Contact Persons: Jon Nelson, OIP and Winnie Malia, LMIS

The Office of Information Processing anticipates running tests on the corrections made to the ETA-581 program within two to three weeks for LMIS review.

#2.

Contact Person: Winnie Malia, LMIS

Amended reports were submitted for July 30, 1998 and September 30, 1998 on August 17, 1999. The preparer will review the ETA-227 report with the supervisor prior to submittal.

STATE OF MAINE
CORRECTIVE ACTION PLAN
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

Finding Number: 98-46
Department of Labor
Office of Administrative Services
Contact Person: Rose Bailey
Telephone Number: (207) 287-1276

Finding: Accounting systems not reconciled (Prior Year Finding)

Corrective Action Plan:

OAS concurs with the finding. As stated, the reconciliation process is in various stages of completion. The OAS feels confident that in the State fiscal year 2000, current reconciliation and adjusting entries will be completed within the following monthly accounting cycle. With the assistance of the contractor, all other reconciliations are expected to be completed by January 31, 2000.

As regard to options recommended by the Department of Audit and as stated during an oral interview, OAS and OIP had already examined the options presented by the Department of Audit regarding dual data entry and time and attendance. To eliminate redundancy, development and implementation of enhancements to DOL's current system was suspended pending the outcome of the State's Time and Attendance and Budget RFP's.

Finding Number: 98-47
Office of the Treasurer of State
Contact Person: Marc Cyr
Telephone Number: (207) 287-2771

Finding: Internal control not adequate to ensure compliance with Cash Management Improvement Act

Corrective Action Plan:

Two grants omitted from the FY 1998 agreement were pre-existing programs that had previously been below the dollar threshold for being included. These should have been added for the first time in FY 1998 but were overlooked. They have already been included in the subsequent agreement. A third grant, Disaster Assistance, has never been included in the agreement because it has not been considered an ongoing program. Because of the unpredictable nature of emergency assistance, exceeding the threshold in one year is not an indication it will exceed it the following year. FMS officials have recognized this is unlike other programs and have not objected to its omission in prior years. In future agreements we will either include the program or get the federal government to sign off on the omission.

While it might not have been considered periodic, several times during FY 1998 we checked in with the agencies to discuss concerns. In 1999 a review of the CMIA program was undertaken by the Treasurer and improvements were made in oversight procedures, including increasing the reliability of interest liability reports generated by the central accounting system and increasing recipient agency awareness of the importance of reporting exceptions to the Treasurer. Also in 1999, we invited the federal CMIA coordinator assigned to Maine to come to the state to discuss issues and participate in a training session with DHS. Since the CMIA Policy and Procedures Manual was prepared for Treasury at the beginning of the CMIA program in 1993, we have formalized a sign-off procedure for agencies to report exceptions to drawdown procedures. This gives more responsibility to the agencies for seeing that they follow what is agreed upon and lessens the need for Treasury to audit agency cash management records. As procedures continue to evolve, the manual will be updated to reflect changes.

The Department of Labor (DOL) and the Department of Human Services (DHS) drew down the administrative cost components of certain grants before the average day of clearance for state payroll. This occurred because the accounting system requires money to be in the account before the state payday. DHS has corrected this by using other funds to temporarily cover these costs. DOL is not able to do this so we calculated and paid an interest liability to compensate the federal government for the use of the money.

Finding Number: 98-48
Department of Administrative and Financial Services
Division of Financial and Personnel Services
Contact Person: Ed Karass
Telephone Number: (207) 287-4500

<u>Finding</u>: Working capital excessive, disbursements not in compliance, and account structure inadequate (Prior Year Finding)

<u>Corrective Action Plan</u>:

The authorization to establish a proper internal service fund was granted by the Legislature in Section B-4, Chapter 16, Public Law, 1999. The working capital will be adjusted to reflect the allowable 60 day reserve authorized by OMB Circular A-87.

The Department has retained the services of a qualified actuary to examine the program. The results of the actuary's work demonstrate that there are no excess balances from any participating fund or charges levied any participating fund.

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 1998

Finding #	CFDA #	Department	Description	Questioned Costs	Status
96-1	Various	Administrative and Financial Services	Excess balances in Retiree Health Insurance Fund	$639,000	Agency does not agree with the excess balance, as their Actuaries identified a liability of more than $500m.
96-15	14.228	Economic and Community Development	Release of grant funds without environmental review	$649,545	Agency drafted a letter dated August 14, 1998 to the U.S. Department of Housing and Urban Development to resolve audit findings and questioned costs. A response has not been received. Questioned costs not resolved.
96-16	14.228	Economic and Community Development	Grant administrative procedures should be strengthed	$308,204	Agency drafted a letter dated August 14, 1998 to the U.S. Department of Housing and Urban Development to resolve audit findings and questioned costs. A response has not been received. Questioned costs not resolved.
96-17	84.126	Labor	Inadequate support for salary charged to grant	$50,339	Auditee believes the activities of the person in question were directly related to the primary objectives of the program. Further, a review by the Federal agency in charge raised no questions concerning the person and no adjust-ment of costs was required.
96-23	84.048	Education	Inadequate support for salary charged to grant	$70,184	The findings have not received a final program determination from the U. S. Department of Education. This agency has, however, inplemented corrective action as stated in the audit report.
96-25	84.027	Education	Inadequate support for salary charged to grant	$122,000	The findings have not received a final program determination from the U. S. Department of Education. This agency has, however, inplemented corrective action as stated in the audit report.
97-01	N/A	Administrative and Financial Services	Procedures and resources insufficient for financial reporting.	None	Not corrected in fical year 1998. In fiscal year 1999, a new position was in place, which will provide sufficient resources for financial reporting.
97-02	N/A	Administrative and Financial Services	Fixed asset records incomplete	None	Corrective action in process to be completed in Fiscal Year 1999.
97-03	N/A	Administrative and Financial Services	No system to identify capital leases	None	Capital leases will be corrected in fiscal year 1999.
97-04	N/A	Administrative and Financial Services	Health insurance funding	None	Corrective action in process to be completed during Fiscal Year 2000.
97-05	N/A	Administrative and Financial Services & Human Services	Failure to properly expense AFDC payments/budgetary controls circumvented	None	The Dept., using historical data, hopes to have this corrected in subsequent fiscal years.

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 1998

Finding #	CFDA #	Department	Description	Questioned Costs	Status
97-06	N/A	Human Services	Block grant expenditures incorrectly charges		The Dept., using historical data, hopes to have this corrected in subsequent fiscal years.
97-07	N/A	Labor	Procedures for estimating a reserve for uncollectible receivables are inadequate		The Agency will us the Emp. Tax Aging Report to est. receivables that should be classified as revenues for June 30, 1999.
97-08	N/A	Labor	Revenue recognition criteria not observed		The Agency will set up the reserve for uncollectible receivables for items identified on the Emp. Tax Aging Report that are older than the current year.
97-09	N/A	Office of the Treasurer of State	Untimely reconciliations		Due to continuing staff turnover and vacancies this was still a problem in FY98. By mid June 1999 the reconciliations are more timely and improvement has been made.
97-10	N/A	Office of the Treasurer of State	Inadequate accounting of Trust & Agency Funds		All the steps described in Treasury's response to the finding were implemented early in FY 1999.
97-11	17.246 & 17.250	Labor	Debarment and suspension certifications not obtained	None	As of July 1, 1998, the agency now includes a Certification Regarding Debarment, Suspension and Other Responsibility for each provider to sign and return as part of the contract package.
97-12	17.246 & 17.250	Labor	No system to monitor subrecipients	None	Agency has set up a schedule for all subrecipients to be reviewed and monitored regularly.
97-13	17.999	Labor	Non-compliance with the Cash Management Improvement Act	None	Agency has obtained written guidelines and has changed the check clearence pattern to agree with these guidelines. Periodic monitoring will continue to ensure the pattern is in compliance with the agreement.
97-14	83.516	FEMA	Inadequate system for reviewing subrecipient audit (Prior year finding)	None	Agency has taken corrective action to ensure that this finding does not reoccur. Additional training has been obtained in various areas. Agency will use the financial warehouse to verify expended monies.
97-15	84.027	Education	Excessive administration expenditures	None	The findings have not received a final program determination from the U. S. Department of Education. Agency has , however, implemented corrective action as stated in the audit report.
97-16	Various	Administrative and Financial Services	Working capital and funds disbursement not in compliance, and account structure inadequate (Prior Year Finding)	$365,681	Agency has changed the working capital reserves to conform with OMB Circular A-87, and have fund structure will change from a Trust Fund to a Internal Service Fund in the year 2000 (CH 16 PL99).

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 1998

Finding #	CFDA #	Department	Description	Questioned Costs	Status
97-17	93.575	Human Services	Insufficient controls to ensure compliance with earmarking requirements	None	Agency has created new account codes related to the activities in each earmarked category to simplify the preparation of future expenditure summary reports. Corrective action taken.
97-18	93.575	Human Services	Payroll costs incorrectly charged (Prior Year Finding)	$69,919	Agency has redistributed contract workloads to CCDBG staff, and is proposing to require enhanced time sheets for all staff who handle funtions related to CCDBG administration.
97-19	93.575	Human Services	Inadequate cash management procedures	None	Steps were taken in FY '98 to address this problem.
97-20	93.994	Human Services	Inadequate subrecipient monitoring procedures	None	No action has been taken yet.
97-21	93.994	Human Services	Funds exceeding the period of availability not returned to the federal government	$33,450	Agency is working with the Federal agency to settle this finding.
97-22	93.994	Human Services	Inadequate cash management procedures	None	No action has been taken yet.
97-23	Various	Human Services	Some responsibilities of pass-through agency not met	None	DHS, Division of Audit, agrees with the finding, but does not think it should be directed at their division. They will, however, alert the contract program management of CGDA updates as OMB issues them.
97-24	93.104	MH,MR and Substance Abuse	Indirect cost rate applied incorrectly	$158,434	Agency is working with the Federal Government to come to some agreement on this finding.
97-25	93.104	MH,MR and Substance Abuse	Pass-through responsibilities not met	None	Agency feels this has been resolved. Reviewers of quarterly reports are checking that responsibilities are met, prior to approving next scheduled payments.
97-26	93.959	MH,MR and Substance Abuse	Failure to meet maintenance of effort requirement for State fiscal year 1997 (Prior Year Finding)	None	Agency provided additional information to Federal Grantor on June 11, 1999 and is awaiting response regarding resolution of this finding.
97-27	93.959	MH,MR and Substance Abuse	Excess federal cash	None	Agency has reviewed all internal procedures relating to cash management and has made appropriate changes to comply with Dept. of Treasury Circular '1075.

State of Maine

Summary Schedule of Prior Audit Findings

For Years Prior to Fiscal Year 1998

Finding #	CFDA #	Department	Description	Questioned Costs	Status
97-28	93.959	MH,MR and Substance Abuse	Excess federal cash held by subrecipient	None	During state fiscal year 1999, the agency will review all procedures in order to improve compliance with Circular 1075.
97-29	93.959	MH,MR and Substance Abuse	Expenditures beyond allowable period (Prior Year Finding)	None	Agency provided additional information to Federal Grantor on June 11, 1999 and is awaiting response regarding resolution of this finding.
97-30	93.959	MH,MR and Substance Abuse	Failure to obligate funds in proper period (Prior Year Finding)	None	Agency provided additional information to Federal Grantor on June 11, 1999 and is awaiting response regarding resolution of this finding.
97-31	93.959	MH,MR and Substance Abuse	Set-aside expenditure requirements not met; administrative expenditures not obligated (Prior Year Finding)	None	Agency provided additional information to Federal Grantor on June 11, 1999 and is awaiting response regarding resolution of this finding.
97-32	93.959	MH,MR and Substance Abuse	Failure to document expenditures and maintenance of effort	None	Agency provided additional information to Federal Grantor on June 11, 1999 and is awaiting response regarding resolution of this finding.
97-33	Various	Treasury	Internal control not adequate to ensure compliance with Cash Management Improvement Act (Prior Year Finding)	None	Monthly interest liability reports are being reviewed and compared to account codes used. Agencies will be required to report any account code changes.
97-34	93.558	Human Services	Budget process circumvented/overcharges to other funds due to insufficient TANF block grant allotment	None	Agency is working with the Federal agency to settle this finding.